Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

*This announcement and the listing documents referred herein are for informational purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and is not for distribution, directly or indirectly, in or into the United States.*

***Neither of this announcement and the listing documents referred herein constitute an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. Neither this announcement nor anything herein (including the listing documents) forms the basis for any contract or commitment whatsoever.** The securities referred to herein will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold in the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the company making the offer and its management and financial statements. No public offer of securities referred to herein is being or will be made in the United States.*

For the avoidance of doubt, the publication of this announcement and the listing documents referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the Issuer (as defined below) for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.

中国农业银行
AGRICULTURAL BANK OF CHINA

AGRICULTURAL BANK OF CHINA LIMITED
中國農業銀行股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1288)

U.S.$300,000,000 Floating Rate Notes due 2025 (Stock Code: 5983) (the "Notes")

issued under the U.S.$15,000,000,000 Medium Term Note Programme (the "Programme")

PUBLICATION OF THE PRICING SUPPLEMENT AND THE OFFERING CIRCULAR

Joint Global Coordinators and Joint Lead Managers

AGRICULTURAL BANK OF CHINA LIMITED HONG KONG BRANCH

ABC INTERNATIONAL

BANK OF CHINA

BANK OF COMMUNICATIONS

CHINA CONSTRUCTION BANK (ASIA)

ICBC (ASIA)

CITIC SECURITIES

STANDARD CHARTERED BANK

HSBC

Joint Lead Managers

CNCB CAPITAL

CHINA CITIC BANK INTERNATIONAL

BANK OF CHINA (HONG KONG)

INDUSTRIAL BANK CO., LTD. HONG KONG BRANCH

CHINA MINSHENG BANKING CORP., LTD., HONG KONG BRANCH

CRÉDIT AGRICOLE CIB

HUA XIA BANK CO., LIMITED HONG KONG BRANCH

CHINA INTERNATIONAL CAPITAL CORPORATION

SHANGHAI PUDONG DEVELOPMENT BANK HONG KONG BRANCH

CMB WING LUNG BANK LIMITED

CMB INTERNATIONAL

CHINA SECURITIES INTERNATIONAL

HAITONG INTERNATIONAL

CHINA EVERBRIGHT BANK HONG KONG BRANCH

BNP PARIBAS

ICBC (MACAU)

HUATAI INTERNATIONAL

Reference is made to the notice of listing of the Notes on The Stock Exchange of Hong Kong Limited dated 24 November 2023 published by Agricultural Bank of China Limited (the "**Bank**") in respect of the offering and issuance of the Notes by Agricultural Bank of China Limited Hong Kong Branch (the "**Issuer**") (the "**Formal Notice**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meaning as those defined in the Formal Notice.

This announcement is issued pursuant to Rule 37.39A of the Listing Rules. Please refer to the pricing supplement dated 16 November 2023 in relation to the Notes and the offering circular dated 16 January 2023 in relation to the Programme (collectively, the "**Listing Documents**"), appended herein. The Listing Documents are published in English only. No Chinese versions of the Listing Documents have been published.

Notice to Hong Kong investors: The Issuer and the Bank confirm that the Notes are intended for purchase by Professional Investors (as defined in Chapter 37 of the Listing Rules) only and are listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer and the Bank confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

Hong Kong, 27 November 2023

As at the date of this announcement, the executive directors of the Bank are Mr. GU Shu, Mr. FU Wanjun, Mr. ZHANG Xuguang and Mr. LIN Li; the non-executive directors of the Bank are Mr. LI Wei, Ms. ZHOU Ji, Mr. LIU Xiaopeng, Mr. XIAO Xiang and Mr. ZHANG Qi; and the independent non-executive directors of the Bank are Mr. HUANG Zhenzhong, Ms. LEUNG KO May Yee, Margaret, Mr. LIU Shouying, Mr. WU Liansheng and Mr. WANG Changyun.

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES AND ARE NOT U.S. PERSONS

IMPORTANT: You must read the following before continuing. The following applies to the attached pricing supplement following this page (the "**Pricing Supplement**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Pricing Supplement. In accessing the Pricing Supplement, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")). THIS OFFERING IS MADE SOLELY TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

THE ATTACHED PRICING SUPPLEMENT MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view the attached Pricing Supplement or make an investment decision with respect to the securities, investors must be a non-U.S. person purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the attached Pricing Supplement, you shall be deemed to have represented to Agricultural Bank of China Limited Hong Kong Branch, ABCI Capital Limited, Bank of China Limited, Bank of Communications Co., Ltd. Hong Kong Branch, China Construction Bank (Asia) Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited, CLSA Limited, Standard Chartered Bank, The Hongkong and Shanghai Banking Corporation Limited, CNCB (Hong Kong) Capital Limited, China CITIC Bank International Limited, Bank of China (Hong Kong) Limited, Industrial Bank Co., Ltd. Hong Kong Branch, China Minsheng Banking Corp., Ltd., Hong Kong Branch, Crédit Agricole Corporate and Investment Bank, Hua Xia Bank Co., Limited Hong Kong Branch, China International Capital Corporation Hong Kong Securities Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, CMB Wing Lung Bank Limited, CMB International Capital Limited, China Securities (International) Corporate Finance Company Limited, Haitong International Securities Company Limited, China Everbright Bank Co., Ltd. Hong Kong Branch, BNP Paribas, Industrial and Commercial Bank of China (Macau) Limited and Huatai Financial Holdings (Hong Kong) Limited (each in its capacity as joint lead manager) (together, the "**Joint Lead Managers**") and Agricultural Bank of China Limited Hong Kong Branch as the issuer (the "**Issuer**") (1) that you and any customers you represent are, and that the electronic mail address that you gave the Issuer or the Joint Lead Managers and to which this e-mail has been delivered is, not located in the United States, (2) that you are not a U.S. person, or acting to, the account or benefit of a U.S. person (in each case as defined in Regulation S) and (3) that you consent to delivery of the attached Pricing Supplement and any amendments or supplements thereto by electronic transmission.

You are reminded that the attached Pricing Supplement has been delivered to you on the basis that you are a person into whose possession the Pricing Supplement may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Pricing Supplement to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e- mail software, will be ignored or rejected.

The attached Pricing Supplement does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

The attached Pricing Supplement has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Joint Lead Managers or the Agents (as defined below), nor any person who controls any of them, nor any director, officer, employee, nor agent of any of them, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Pricing Supplement distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Pricing Supplement dated 16 November 2023

Programme ID: 15001

Agricultural Bank of China Limited Hong Kong Branch

Issue of U.S.$300,000,000 Floating Rate Notes due 2025 (the "**Notes**")
under the U.S.$15,000,000,000 Medium Term Note Programme

Notification under Section 309B(1)(c) of the SFA: In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and are Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).

PRIIPs REGULATION - PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPs REGULATION – PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

UK MiFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Professional Investors**")) only.

The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or Agricultural Bank of China Limited (中國農業銀行股份有限公司) (the "Bank") and its subsidiaries (the "Group") or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

This document (read together with the Offering Circular) includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") set forth in the Offering Circular dated 16 January 2023 (the "**Offering Circular**"). This Pricing Supplement, together with the information set out in the Schedule to this Pricing Supplement, supplements the Offering Circular and supersedes the information in the Offering Circular to the extent inconsistent with the information included therein. This Pricing Supplement contains the final terms of the Notes and supplements the Offering Circular and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular and this Pricing Supplement.

1	Issuer		Agricultural Bank of China Limited Hong Kong Branch (Incorporated in the People's Republic of China with limited liability)
2	(i)	Series Number:	347

	(ii) Tranche Number (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)	001
	(iii) Tax Jurisdiction:	Hong Kong
3	Specified Currency or Currencies:	United States dollars ("**U.S.$**")
4	Aggregate Nominal Amount:	
	(i) Series:	U.S.$300,000,000
	(ii) Tranche:	U.S.$300,000,000
5	(i) Issue Price:	100.0 per cent. of the Aggregate Nominal Amount
	(ii) Gross Proceeds:	U.S.$300,000,000
6	(i) Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(ii) Calculation Amount:	U.S.$1,000
7	(i) Issue Date:	24 November 2023
	(ii) Interest Commencement Date:	Issue Date
8	Maturity Date:	Interest Payment Date falling on or nearest to 24 November 2025.
9	Interest Basis:	SOFR Compounded Index + 0.58 per cent. per annum Floating Rate (further particulars specified below)
10	Redemption / Payment Basis:	Redemption at par
11	Change of Interest or Redemption / Payment Basis:	Not Applicable
12	Put / Call Options:	Not Applicable
13	Status of the Notes:	Senior Notes
14	NDRC approval(s) / reporting:	The Certificate of Examination and Registration for Foreign Debt Issuances (《企业借用外债审核登记证明》(发改办外债【2023】66 号)) dated 23 April 2023 granted by the NDRC to the Bank pursuant to the NDRC Administrative Measures (the "**NDRC Certificate of Examination and Registration**"); and the letter dated 31 October 2023 issued by the Bank authorising the Issuer to utilise the foreign debt quota granted by the NDRC. The requisite information and documents in connection with the Notes shall be provided to the NDRC within the prescribed timeframe after the Issue Date in accordance with the NDRC Administrative Measures.

15	Listing:	Hong Kong Stock Exchange (Listing is expected to be effective on 27 November 2023)
16	Method of distribution:	Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17	Fixed Rate Note Provisions:	Not Applicable
18	Floating Rate Note Provisions:	Applicable
(i)	Interest Period(s):	As per the Conditions The end date of each Interest Period shall be subject to adjustment in accordance with the Business Day Convention specified in paragraph 18(iii) below
(ii)	Specified Interest Payment Dates:	24 February, 24 May, 24 August and 24 November of each year commencing on and including the first Interest Payment Date of 24 February 2024 up to and including the Maturity Date, subject, in each case, to adjustment in accordance with the Business Day Convention specified in paragraph 18(iii) below
(iii)	Business Day Convention:	Modified Following Business Day Convention
(iv)	Business Centre(s) (Condition 5(j)):	Not Applicable
(v)	Manner in which the Rate(s) of Interest is/ are to be determined:	Screen Rate Determination (SOFR)
(vi)	Interest Period Date(s):	Not Applicable
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	Agricultural Bank of China Limited Hong Kong Branch
(viii)	Screen Rate Determination (Condition 5(b)(iii)(B)):	Not Applicable
	— Reference Rate:	Not Applicable
	— Interest Determination Date:	Not Applicable
	— Relevant Screen Page:	Not Applicable
(ix)	Screen Rate Determination (SOFR) (Condition 5(b)(iii)(C)):	
	— Reference Rate:	SOFR Benchmark – SOFR Compounded Index

		— Compounded Daily SOFR Method:	Not Applicable
		— Interest Determination Date(s):	The fifth U.S. Government Securities Business Day prior to the last day of each Interest Accrual Period
		— Lookback Days:	Not Applicable
		— SOFR Observation Shift Days:	Five (5) U.S. Government Securities Business Days
		— SOFR Rate Cut-Off Date:	Not Applicable
		— Interest Payment Delay Days:	Not Applicable
	(x)	ISDA Determination (Condition 5(b)(iii)(A)):	Not Applicable
	(xi)	Linear Interpolation:	Not Applicable
	(xii)	Margin(s):	+ 0.58 per cent. per annum
	(xiii)	Minimum Rate of Interest:	Not Applicable
	(xiv)	Maximum Rate of Interest:	Not Applicable
	(xv)	Day Count Fraction (Condition 5(j)):	Actual/360
	(xvi)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	Condition 5(b)(v) (*Benchmark Replacement (SOFR)*) applies
19	Zero Coupon Note Provisions:		Not Applicable
20	Index Linked Interest Note Provisions:		Not Applicable
21	Dual Currency Note Provisions:		Not Applicable

PROVISIONS RELATING TO REDEMPTION

22	Call Option:	Not Applicable
23	Put Option:	Not Applicable
24	Final Redemption Amount of each Note:	U.S.$1,000 per Calculation Amount
25	Early Redemption Amount:	
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10(a) or 10(b)) and / or the	U.S.$1,000 per Calculation Amount

	method of calculating the same (if required or if different from that set out in the Conditions):	

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26	Form of Notes:	Registered Notes Permanent Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the permanent Global Certificate
27	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	New York City and Hong Kong
28	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Not Applicable
29	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
30	Details relating to Instalment Notes:	Not Applicable
31	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
32	Consolidation provisions:	Not Applicable
33	Other terms or special conditions:	Not Applicable

DISTRIBUTION

34	(i) If syndicated, names of Managers:	Agricultural Bank of China Limited Hong Kong Branch ABCI Capital Limited Bank of China Limited Bank of Communications Co., Ltd. Hong Kong Branch China Construction Bank (Asia) Corporation Limited Industrial and Commercial Bank of China (Asia) Limited CLSA Limited Standard Chartered Bank The Hongkong and Shanghai Banking Corporation Limited CNCB (Hong Kong) Capital Limited

		China CITIC Bank International Limited Bank of China (Hong Kong) Limited Industrial Bank Co., Ltd. Hong Kong Branch China Minsheng Banking Corp., Ltd., Hong Kong Branch Crédit Agricole Corporate and Investment Bank Hua Xia Bank Co., Limited Hong Kong Branch China International Capital Corporation Hong Kong Securities Limited Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch CMB Wing Lung Bank Limited CMB International Capital Limited China Securities (International) Corporate Finance Company Limited Haitong International Securities Company Limited China Everbright Bank Co., Ltd. Hong Kong Branch BNP Paribas Industrial and Commercial Bank of China (Macau) Limited Huatai Financial Holdings (Hong Kong) Limited (together, the "**Joint Lead Managers**" and each, a "**Joint Lead Manager**")
	(ii) Stabilisation Manager (if any):	Any of the Joint Lead Managers in its capacity as stabilisation manager *provided* that China CITIC Bank International Limited shall not be acting as the Stabilisation Coordinator.
35	If non-syndicated, name of Dealer:	Not Applicable
36	U.S. Selling Restrictions:	Reg. S Category 2; TEFRA Not Applicable
37	Additional selling restrictions:	Applicable, see the Schedule to this Pricing Supplement

OPERATIONAL INFORMATION

38	ISIN Code:	XS2717885920
39	Common Code:	271788592
40	CMU Instrument Number:	Not Applicable
41	Legal Entity Identifier:	The legal entity identifier of Agricultural Bank of China Limited is 549300E7TSGLCOVSY746
42	Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and the CMU Service and the relevant identification number(s):	Not Applicable

43	Delivery:	Delivery against payment
44	Additional Paying Agents (if any):	Not Applicable

GENERAL

45	The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [●], producing a sum of (for Notes not denominated in U.S. dollars):	Not Applicable
46	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	Not Applicable
47	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	Not Applicable
48	Ratings:	The Notes are expected to be rated "A1" by Moody's Investors Service Hong Kong Limited.
49	Private Bank Rebate:	Not Applicable
50	Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent:	ProjectCelebrate@cmbi.com.hk ling.chen@icbcasia.com, jackie.jq.chen@icbcasia.com, tiantian.li@icbcasia.com, lisixuan.hester@icbcasia.com linziying.lavinia@icbcasia.com, qiruixiao.tracy@icbcasia.com spdbhk.dcm@spdb.com.cn dcm@htisec.com dcmhk@bocgroup.com abcmtn@bochk.com cmd_dcm@cibhk.com dcm@bankcomm.com.hk abcic.dcm@abci.com.hk abchk.dcm@abchina.com abchk.dcm@abchina.com.hk ccba_dcm@asia.ccb.com ib.dcm.fig@clsa.com dcm@cncbinvestment.com dcm@hxb.com.cn; dcm@hxb.com.hk SYNHK@sc.com Project.Celebrate2023@ca-cib.com HKG-Syndicate@ca-cib.com AM_DCMDepartment@mc.icbc.com.cn

hk_syndicate_omnibus@hsbc.com.hk

51	Marketing and Investor Targeting Strategy	Not Applicable

LISTING APPLICATION

This Pricing Supplement comprises the final terms required for the listing on the Hong Kong Stock Exchange of the Notes described herein pursuant to the U.S.$15,000,000,000 Medium Term Note Programme of Agricultural Bank of China Limited. Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes on the Hong Kong Stock Exchange.

STABILISING

In connection with the issue of any Tranche of Notes, any of the Joint Lead Managers appointed and acting in its capacity as Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in this Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail, *provided that* China CITIC Bank International Limited shall not be acting in such capacity. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

MATERIAL ADVERSE CHANGE STATEMENT

Save as disclosed herein, there has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2023 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 30 June 2023.

LITIGATION

The Issuer is not involved in any material litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes, nor is the Issuer aware that any such proceedings are pending or threatened, during the 12 months prior to the date of this Pricing Supplement.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

SCHEDULE – ADDITIONAL DISCLOSURE

In respect of this series of Notes only, the Offering Circular is hereby supplemented with the following information, which shall be deemed to be incorporated in, and to form part of, the Offering Circular. Save as otherwise defined herein, terms defined in the Offering Circular have the same meaning when used in this Schedule.

DESCRIPTION OF THE BANK

The section entitled "Description of the Bank" on page 117 of the Offering Circular shall be supplemented by the following:

"The Bank published (i) its annual report for the year ended 31 December 2022 (the "**2022 Annual Report**") on 25 April 2023, (ii) its quarterly report for the three months ended 31 March 2023 (the "**First Quarter Report**") on 28 April 2023, (iii) its interim report for the six months ended 30 June 2023 (the "**2023 Interim Report**") on 26 September 2023 and (iv) its quarterly report for the nine months ended 30 September 2023 (the "**Third Quarter Report**") on 27 October 2023. The 2022 Annual Report contains the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2022 (together with the audit report prepared in connection therewith), the First Quarter Report contains the unaudited and unreviewed consolidated interim financial statements of the Bank as at and for the three months ended 31 March 2023, the 2023 Interim Report contains the unaudited but reviewed condensed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2023 (together with the review report prepared in connection therewith), and the Third Quarter Report contains the unaudited and unreviewed consolidated interim financial statements of the Bank as at and for the nine months ended 30 September 2023. The audited consolidated financial statements of the Bank as at and for the year ended 31 December 2022 (together with the audit report prepared in connection therewith), the unaudited and unreviewed consolidated interim financial statements of the Bank as at and for the three months ended 31 March 2023, the unaudited but reviewed condensed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2023 together with the review report prepared in connection therewith) and the unaudited and unreviewed consolidated interim financial statements of the Bank as at and for the nine months ended 30 September 2023 (together, the "**Incorporated Information**") are incorporated by reference to the Offering Circular and can be found on the website of the Hong Kong Stock Exchange.

The Incorporated Information may contain certain forward-looking statements that reflect the Issuer's beliefs, plans or expectations about the future or future events. These forward-looking statements are based on a number of assumptions, current estimates and projections, and are therefore subject to inherent risks, uncertainties and other factors beyond the Group's control, and are not a guarantee of the Group's future performance. The actual results or outcomes of events may differ materially and/or adversely due to a number of known and unknown risks, uncertainties and assumptions, including the risk factors described in "Risk Factors" in the Offering Circular. Nothing contained in these forward-looking statements is, or shall be, relied upon as any assurance or representation as to the future or as a representation or warranty otherwise. None of the Bank or the Issuer and their respective directors, officers, employees, agents, affiliates, advisers or representatives assumes any responsibility to update these forward-looking statements or to adapt them to future events or developments or to provide supplemental information in relation thereto or to correct any inaccuracies.

The First Quarter Report and the Third Quarter Report have not been and will not be audited or reviewed by the Bank's independent auditors. The First Quarter Report and the Third Quarter Report should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. The 2023 Interim Report has not been and will not be audited by the Bank's independent auditors and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. None of the Dealers, the Managers nor any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them make any representation, or warranty, express or implied, regarding the sufficiency of the First Quarter Report, the 2023 Interim Report or the Third Quarter Report for an assessment of the Bank's financial condition, results of operations and results. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operation. The First Quarter Report, the 2023 Interim Report and the Third Quarter Report should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year."

SUBSTANTIAL SHAREHOLDERS

The content in the section entitled "Substantial Shareholders" on page 162 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"As at 30 June 2023, the persons who had, or were deemed or taken to have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Bank under the provisions of Division 2 and 3 of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "**SFO**") or which were recorded in the Bank's register required to be kept under section 336 of the SFO or who were directly or indirectly interested in 5 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Bank were as follows[1]:

Unit: Share

Name	**Capacity**	**Interests and short positions**	**Nature**	**Percentage of issued class shares (%)**	**Percentage of total issued shares (%)**
Huijin	Beneficial owner	140,087,446,351 (A Shares)	Long position	43.88	40.03
	Interest of controlled entity	1,255,434,700 (A Shares)	Long position	0.39	0.36
MOF	Beneficial owner/nominee[1]	133,312,244,066 (A Shares)[2]	Long position	41.76	38.09
SSF	Beneficial owner	23,520,968,297 (A Shares)	Long position	7.37	6.72
Qatar Investment Authority	Interest of controlled entity	2,448,859,255 (H Shares)[3]	Long position	7.97	0.70
Qatar Holding LLC	Beneficial owner	2,408,696,255 (H Shares)[3]	Long position	7.84	0.69
BlackRock, Inc.	Interest of controlled entity	2,128,342,951 (H Shares)[4]	Long position	6.92	0.61
		51,842,000 (H Shares)	Short position	0.17	0.01
China Taiping Insurance Holdings Company Limited	Interest of controlled entity	1,545,179,000 (H Shares)[5]	Long position	5.03	0.44
China Taiping Insurance Group Ltd.	Interest of controlled entity	1,545,179,000 (H Shares)[5]	Long position	5.03	0.44
Taiping Life Insurance Co., Ltd.	Beneficial owner	1,545,179,000 (H Shares)[5]	Long position	5.03	0.44
Taiping Asset Management Co., Ltd	Investment manager	1,543,690,000 (H Shares)	Long position	5.02	0.44
	Interest of controlled entity	1,489,000 (H Shares)[6]	Long position	0.00	0.00

Notes:

(1) 9,797,058,826 A Shares are held by the SSF, but the voting rights of these shares were transferred to the MOF according to the share subscription agreement dated 21 April 2010 and the Approval on the Proposed Transfer of State-owned Shares of the Agricultural Bank of China issued by the MOF on 5 May 2010.

(2) According to the register of members of the Bank at 30 June 2023, the MOF held 123,515,185,240 A Shares of the Bank, representing 38.69% of the issued A Shares and 35.29% of the total issued shares of the Bank.

(3) Qatar Investment Authority is deemed to be interested in 2,448,859,255 H Shares in aggregate, held by Qatar Holding LLC and QSMA1 LLC, both of which are wholly-owned subsidiaries of Qatar Investment Authority.

(4) BlackRock, Inc. is deemed to be interested in 2,128,342,951 H Shares in aggregate, directly or indirectly held by BlackRock Investment Management, LLC and BlackRock Financial Management, Inc., both of which are the wholly-owned subsidiaries of BlackRock, Inc.

(5) China Taiping Insurance Group Ltd. and its non-wholly owned subsidiary, China Taiping Insurance Holdings Company Limited, are deemed to be interested in 1,545,179,000 H Shares directly held by Taiping Life Insurance Co., Ltd., which is the controlled entity of China Taiping Insurance Group Ltd. and China Taiping Insurance Holdings Company Limited.

(6) Taiping Asset Management Co., Ltd. is deemed to be interested in 1,489,000 H Shares directly held by Taiping Fund Management Co., Ltd., which is the controlled entity of Taiping Asset Management Co., Ltd., and such number of shares represented approximately 0.0048% of the issued class shares.

CAPITALISATION AND INDEBTEDNESS

The section entitled "Capitalisation and Indebtedness" on page 115 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"As at 30 June 2023, the Bank had an authorised share capital of CNY350.0 billion divided into 30.7 billion H shares of CNY1.00 each and 319.2 billion A shares of CNY1.00 each. As at the same date, the Bank had a total of 457,705 shareholders, including 20,790 holders of H shares and 436,915 holders of A shares.

The following table sets out the Group's consolidated capitalisation and indebtedness as at 30 June 2023 as adjusted to give effect to the issuance of the Notes prior to deducting the commissions and other estimated expenses payable by the Group in connection with this offering. This table should be read in conjunction with the 2023 Interim Reports, including the notes thereto, incorporated by reference in this Offering Circular.

	As at 30 June 2023 Actual		As at 30 June 2023 As adjusted	
	(Unaudited) CNY (in millions)	*(Unaudited) U.S.$ (1) (in millions)*	*(Unaudited) CNY (in millions)*	*(Unaudited) U.S.$ (1) (in millions)*
Debts:(2)				
Bonds issued	501,698	69,187	501,698	69,187
Certificates of deposit issued	317,147	43,737	317,147	43,737
Other debt securities issued	1,175,191	162,066	1,175,191	162,066
Notes to be issued(3)	-	-	2,175	300
Total debt	1,994,036	274,990	1,996,211	275,290
Equity:				
Ordinary shares	349,983	48,265	349,983	48,265
Preference shares	80,000	11,033	80,000	11,033
Perpetual bonds	360,000	49,646	360,000	49,646
Capital reserve	173,426	23,917	173,426	23,917
Surplus reserve	247,144	34,083	247,144	34,083
General reserve	456,450	62,947	456,450	62,947
Retained earnings	1,015,977	140,110	1,015,977	140,110
Non-controlling interests	6,260	863	6,260	863
Other comprehensive income	31,466	4,339	31,466	4,339
Total equity	2,720,706	375,203	2,720,706	375,203
Total capitalisation(4)	4,714,742	650,193	4,716,917	650,493

Notes:

(1) The translation of Renminbi amounts into U.S. dollar amounts has been made at the rate of CNY7.2513 to U.S.$1.00, which is the exchange rate set forth in the H.10 weekly statistical release of the Board of Governors or the Federal Reserve System of the United States on 30 June 2023.

(2) As at 30 June 2023, in addition to debt, the Bank had other borrowed funds and liabilities, including borrowings from central banks, due to customers, deposits and placements from banks and other financial institutions, financial liabilities held for trading, derivative financial liabilities, financial assets sold under repurchase agreements and financial liabilities at fair value through profit or loss. See the Bank's reviewed condensed consolidated financial interim statements as at 30 June 2023 for further details.

(3) This amount represents the aggregate principal amount of U.S.$300,000,000 of the Notes to be issued.

(4) Total capitalisation equals total debt plus total equity.

From time to time, the Bank and/or its various branches may issue debt or other regulatory capital securities in various currencies and tenor depending on market conditions.

There has been no material adverse change in the total capitalisation and indebtedness of the Group, on a consolidated basis, since 30 June 2023."

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

1 The table under the section entitled "Directors" on page 163 of the Offering Circular shall be deleted in its entirety and replaced with the following:

Name	Position	Term of appointment
GU Shu	Chairman of the Board of Directors and Executive Director	2021.01-2024.01
FU Wanjun	Vice chairman of the Board of Directors, Executive Director and President	2023.01-2026.01
ZHANG Xuguang	Executive Director and Executive Vice President	2023.10-2026.10
LIN Li	Executive Director and Executive Vice President	2021.06-2024.06
LI Wei	Non-executive Director	2019.05-2025.06
ZHOU Ji	Non-executive Director	2021.03-2024.03
LIU Xiaopeng	Non-executive Director	2022.01-2025.01
XIAO Xiang	Non-executive Director	2022.01-2025.01
ZHANG Qi	Non-executive Director	2022.12-2025.12
HUANG Zhenzhong	Independent Non-executive Director	2017.09-Present
LEUNG KO May Yee, Margaret	Independent Non-executive Director	2019.07-2025.06
LIU Shouying	Independent Non-executive Director	2019.07-2025.06
WU Liansheng	Independent Non-executive Director	2021.11-2024.11
WANG Changyun	Independent Non-executive Director	2022.12-2025.12

2 Following Mr. ZHANG Qingsong's resignation effective from 6 September 2022, the biography of Mr. ZHANG Qingsong under the section entitled "Executive Directors" on page 163 of the Offering Circular shall be deleted in its entirety.

3 Following Mr. FU Wanjun's appointment as the Vice Chairman of the Board of Directors, Executive Director and President on 2 December 2022, the following biographic details of Mr. FU Wanjun shall be inserted below the paragraph of Mr. GU Shu's biography in the section entitled "Executive Directors" on page 163 of the Offering Circular.

"**Mr. FU Wanjun** holds a degree of executive master of business administration from Dalian University of Technology and is a senior economist. He previously served as an assistant president and vice president of Urumqi Branch of Bank of Communications Co., Ltd., president of Yinchuan Branch, president of Xinjiang Uygur Autonomous Region (Urumqi) Branch, president of Chongqing Branch, general manager of Corporate and Institutional Business Department of Bank of Communications Co., Ltd., and chief business officer (corporate and institutional business sector) of Bank of Communications Co., Ltd. He served as a deputy general manager of China Everbright Group Ltd. since March 2019, and served as an executive director of China Everbright Group Ltd. and executive director and president of China Everbright Bank Company Limited since June 2021."

4 Following Mr. LIAO Luming's cessation to act as a Non-executive Director on 28 September 2023, the biography of Mr. LIAO Luming under the section entitled "Executive Directors" on page 164 of the Offering Circular shall be deleted in its entirety.

5 The last sentence in the paragraph of Mr. WU Liansheng's biography in the section entitled "Independent Non-executive Directors" on page 166 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"Mr. WU currently serves as an independent director of Pop Mart International Group Limited."

Supervisors

1 The table under the section entitled "Supervisors" on page 166 of the Offering Circular shall be deleted in its entirety and replaced with the following:

Name	Position
DENG Lijuan	Supervisor Representing Shareholders
HUANG Tao..	Supervisor Representing Employees
WANG Xuejun	Supervisor Representing Employees
LIU Hongxia..	External Supervisor
XU Xianglin...	External Supervisor
WANG Xixin	External Supervisor

2 Following Mr. WANG Jingdong's resignation effective from 7 February 2023, Mr. WANG Jingdong's biography in the section entitled "Supervisors" on page 167 of the Offering Circular shall be deleted in its entirety.

3 Following Mr. WU Gang's cessation to serve as a Supervisor Representing Employees on 25 April 2023, Mr. WU Gang's biography in the section entitled "Supervisors" on page 167 of the Offering Circular shall be deleted in its entirety.

4 The last two sentences in the paragraph of Ms. DENG Lijuan's biography in the section entitled "Supervisors" on page 167 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"She was appointed as the vice general manager of the Human Resources Department of the Bank in August 2016."

Senior management

1 The table under the section entitled "Senior management" on page 166 of the Offering Circular shall be deleted in its entirety and replaced with the following:

Name	Position
FU Wanjun	Vice Chairman of the Board of Directors, Executive Director and President
ZHANG Xuguang	Executive Director and Executive Vice President
LIN Li	Executive Director and Executive Vice President
XU Han	Executive Vice President
LIU Jiawang	Executive Vice President
LIU Hong	Executive Vice President
HAN Guoqiang	Secretary to the Board of Directors
WU Gang	Chief Risk Officer

2 Following Mr. ZHANG Qingsong's resignation effective from 6 September 2022, and Mr. FU Wanjun's appointment as the Vice Chairman of the Board of Directors, Executive Director and President on 2 December 2022, the reference to the biography of Mr. ZHANG Qingsong under the section entitled "Senior management" on page 168 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"For detailed biographies of Mr. FU Wanjun, Mr. ZHANG Xuguang and Mr. LIN Li, see "Executive Directors" above. The biographies of other senior management personnel are as follows."

3 Following Mr. LIU Jiawang's appointment as an Executive Vice President on 29 September 2022, the following biographic details of Mr. LIU Jiawang shall be inserted below the biography of Mr. XU Han in the section entitled "Senior management" on page 169 of the Offering Circular:

"**Mr. LIU Jiawang** holds a bachelor's degree in economics from Nankai University, is a senior economist and holds a master's degree in economics. Mr. Liu previously served as the president of Suzhou Branch, the vice president of Jiangsu Branch and president of Suzhou Branch, the president of Anhui Branch and the president of Sichuan Branch of Agricultural Bank of China."

4 Following Mr. ZHANG Yi's resignation effective from 21 March 2023, and Mr. LIU Hong's appointment as an Executive Vice President on 24 August 2023, the biographic details of Mr. ZHANG Yi shall be deleted in its entirety and the following biography of Mr. LIU Hong should be inserted below the biography of Mr. LIU Jiawang in the section entitled "Senior management" on page 169 of the Offering Circular:

"**Mr. LIU Hong** holds a master's degree in public administration from Peking University and is a senior economist. He has served as the chief officer of County Area Banking Business of the Bank since June 2023. He has served as the general manager of the Human Resources Dept./County Area Banking & Inclusive Finance Human Resources Management Centre of the Bank since September 2018. Mr. Liu previously served in several positions in the Bank, such as the deputy general manager of the Human Resources Dept., a deputy general manager of the Executive Office as well as the president and the editor-in-chief of China Urban-Rural Financial News (secondary department level), the general manager of the Office of the Board of Supervisors, a supervisor, the president of Qinghai Branch, an executive vice secretary of the Party Committee and the secretary of the Disciplinary Committee of the Head Office."

5 Following Mr. LI Zhicheng's resignation as the Chief Risk Officer on 28 February 2023, and Mr. WU Gang's appointment as the Chief Risk Officer on 1 June 2023, the biographic details of Mr.

LI Zhicheng shall be deleted in its entirety and the following biography of Mr. WU Gang should be inserted below the biography of Mr. HAN Guoqiang in the section entitled "Senior management" on page 169 of the Offering Circular:

"**Mr. WU Gang** holds a master's degree from Tianjin University specialising in management engineering and is a senior economist. He has been the general manager of Audit Office of the Head Office of the Bank since May 2018. Mr. WU previously served as the assistant to the general manager and the deputy general manager of the Corporate Banking Department of the Bank, the general manager of the Big Client Department/Business Department and concurrently the vice president of the Beijing Branch. He served as the president of the Henan Branch of the Bank in June 2014 and served as a supervisor of the Bank in October 2019."

SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS

1 Following Mr. FU Wanjun's appointment as a member of the Strategic Planning and Sustainable Development Committee, Nomination and Remuneration Committee and the chairman of the County Area Banking Business and Inclusive Finance Development Committee, Mr. LIAO Luming's resignation from the Strategic Planning and Sustainable Development Committee, County Area Banking Business and Inclusive Finance Development Committee, Risk Management and Consumers' Interests Protection Committee and Risk Management Committee of Institutions in the United States Regions, and Mr. ZHANG Qingsong's resignation from the Strategic Planning and Sustainable Development Committee, County Area Banking Business and Inclusive Finance Development Committee and the Nomination and Remuneration Committee:

- the section entitled "Strategic Planning and Sustainable Development Committee" on page 169 of the Offering Circular shall be deleted in its entirety and replaced with the following:

  "Strategic Planning and Sustainable Development Committee

  The Strategic Planning and Sustainable Development Committee consists of seven directors, including Mr. GU Shu, Mr. FU Wanjun, Mr. ZHANG Xuguang, Mr. LIN Li (all are Executive Directors), Ms. ZHOU Ji, Mr. LIU Xiaopeng and Mr. XIAO Xiang (all are Non-executive Directors). Mr. GU Shu is the chairman of the Strategic Planning and Sustainable Development Committee. The primary duties of the Strategic Planning and Sustainable Development Committee are to review the overall strategic development plan and specific strategic development plans, major investment and financing plans, establishment of legal entities and other material matters critical to the Bank's development, to formulate the sustainable development strategies and goals of the Bank and regularly assess the risks associated with sustainable development and the implementation of the sustainable development strategies and to make suggestions to the Board of Directors."

- the section entitled "County Area Banking Business and Inclusive Finance Development Committee" on page 170 of the Offering Circular shall be deleted in its entirety and replaced with the following:

  "County Area Banking Business and Inclusive Finance Development Committee

  The County Area Banking Business and Inclusive Finance Development Committee consists of six directors, including Mr. FU Wanjun (Executive Director), Mr. LI Wei, Ms. ZHOU Ji, Mr. ZHANG Qi (all are Non-executive Directors), Mr. LIU Shouying and Mr. WU Liansheng (both are Independent Non-executive Directors). Mr. FU Wanjun is the chairman of the County Area Banking Business and Inclusive Finance Development Committee. The primary duties of the County Area Banking Business and Inclusive Finance Development Committee are to review the strategic development plan, policies and basic management rules, risk management strategic plan and other major matters in relation to the development of the County Area Banking Business and Inclusive Finance, as well as supervise the implementation of the strategic development plan, policies and basic management rules of the County Area Banking Business and Inclusive Finance, and to provide suggestions to the Board of Directors."

- the section entitled "Nomination and Remuneration Committee" on page 170 of the Offering Circular shall be deleted in its entirety and replaced with the following:

  "The Nomination and Remuneration Committee

  The Nomination and Remuneration Committee consists of seven directors, including Mr. FU Wanjun (Executive Director), Mr. LI Wei, Ms. ZHOU Ji (both are Non-executive Directors), Mr. HUANG Zhenzhong, Mr. LIU Shouying, Mr. WU Liansheng and Mr. WANG Changyun (all are Independent Non-executive Directors). Mr. LIU Shouying is the chairman of the Nomination and Remuneration Committee. The primary duties of the Nomination and Remuneration Committee are to formulate standards and procedures for election of directors, chairman and members of special committees and senior management members, and to make recommendations regarding the proposed candidates for directors and senior management members and their qualifications to the Board of Directors, as well as to formulate the remuneration policies for directors and senior management members, and to submit the remuneration packages to the Board of Directors for consideration."

- the section entitled "Risk Management and Consumers' Interests Protection Committee" on pages 170 to 171 of the Offering Circular shall be deleted in its entirety and replaced with the following:

  "Risk Management and Consumers' Interests Protection Committee

  The Risk Management and Consumers' Interests Protection Committee consists of eight directors, including Mr. ZHANG Xuguang, Mr. LIN Li (both are Executive Directors), Mr. LIU Xiaopeng, Mr. XIAO Xiang, Mr. ZHANG Qi (all are Non-executive Director), Mr. HUANG Zhenzhong, Ms. LEUNG KO May Yee Margaret and Mr. WANG Changyun (all are Independent Non-executive Directors). Mr. HUANG Zhenzhong is the chairman of the Risk Management and Consumers' Interests Protection Committee. The primary duties of the Risk Management and Consumers' Interests Protection Committee are to review the Bank's strategic plan of risk management, risk appetite, material risk management policies, risk management report and allocation plan of risk-weighted capital, to review the Bank's strategies, policies and objectives of consumer protection, to continuously oversee the risk management system, to supervise and evaluate the Bank's work in risk management and consumers' interest protection, and to provide suggestions to the Board of Directors."

- the section entitled "Risk Management Committee of Institutions in the United States Regions" on page 171 of the Offering Circular shall be deleted in its entirety and replaced with the following:

  "**Risk Management Committee of Institutions in the United States Regions**

The Risk Management Committee of Institutions in the United States Regions of the Board of Directors currently comprises eight directors, including Mr. ZHANG Xuguang, Mr. LIN Li (both are Executive Directors), Mr. LIU Xiaopeng, Mr. XIAO Xiang, Mr. ZHANG Qi (all are Non-executive Directors), Mr. HUANG Zhenzhong, Ms. LEUNG KO May Yee, Margaret, and Mr. WANG Changyun (all are Independent Non-executive Directors). Mr. HUANG Zhenzhong is the chairman of the Risk Management Committee of Institutions in the United States Regions. The primary duties of the Risk Management Committee of Institutions in the United States Regions are to review and approve the risk management policies in relation to businesses in the United States regions and supervise its implementation, as well as to review issues identified in the internal and external inspection of institution in the United States regions and the report on relevant rectification, and other matters authorized by the Board of Directors. Responsibilities of the Risk Management Committee of Institutions in the United States Regions are concurrently assumed by the Risk Management and Consumers' Interests Protection Committee."

SUBSCRIPTION AND SALE

The sub-section "Subscription and Sale – Selling Restrictions – Singapore" on pages 193 to 194 of the Offering Circular shall be deemed to be deleted in its entirety and replaced with:

"**Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to section 274 of the SFA or (ii) to an accredited investor (as defined in section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

*Singapore SFA Product Classification: In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309(A)(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products)."*

Signed on behalf of Agricultural Bank of China Limited Hong Kong Branch:

By:

Chan Chi Fai, Owens
General Manager
Financial Markets Department

By:

Fung Siu Keung, Andy
General Manager
Credit Department

IMPORTANT NOTICE

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")). THIS OFFERING IS MADE SOLELY TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

THIS OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY US ADDRESS. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must be a non-U.S. person purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to have represented to Agricultural Bank of China Limited Hong Kong Branch 中國農業銀行股份有限公司香港分行, ABCI Capital Limited 農銀國際融資有限公司 and Standard Chartered Bank (the "**Arrangers**"), BNP Paribas, Citigroup Global Markets Limited, Commonwealth Bank of Australia, Crédit Agricole Corporate and Investment Bank, DBS Bank Ltd., Deutsche Bank AG, Singapore Branch, First Abu Dhabi Bank PJSC, Goldman Sachs (Asia) L.L.C., The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Merrill Lynch (Asia Pacific) Limited, Mizuho Securities Asia Limited and Wells Fargo Securities International Limited (together with the Arrangers, the "**Dealers**") and Agricultural Bank of China Limited 中國農業銀行股份有限公司 or such branch of Agricultural Bank of China Limited 中國農業銀行股份有限公司 (including Agricultural Bank of China Limited Hong Kong Branch 中國農業銀行股份有限公司香港分行) as specified in the applicable Pricing Supplement (each an "**Issuer**") (1) that you and any customers you represent are and that the electronic mail address that you gave the Issuer and to which this e-mail has been delivered is not located in the United States, (2) that you are not a U.S. person, or acting to, the account or benefit of a U.S. person (in each case as defined in Regulation S) and (3) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

Important Notice to Prospective Investors

Prospective investors should be aware that certain intermediaries in the context of certain offerings of Notes pursuant to the Programme, each such offering, a "**CMI Offering**", including certain Dealers, may be "capital market intermediaries" ("**CMI**") subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the "**SFC Code**"). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as "overall coordinators" ("**OCs**") for a CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an association ("**Association**") with the Issuer, the CMI or the relevant group company. Prospective investors associated with the Issuer or any CMI (including its group companies) should specifically disclose this when placing an order for the relevant Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to the relevant CMI Offering, such order is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). A rebate may be offered by the Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of the relevant CMI Offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate Details of any such rebate will be set out in the applicable Pricing Supplement or otherwise notified to prospective investors. If a prospective investor is an asset management arm affiliated with any relevant Dealer, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the relevant Dealer or its group company has more than 50% interest, in which case it will be classified as a "proprietary order" and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such "proprietary order" may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". If a prospective investor is otherwise affiliated with any relevant Dealer, such that its order may be considered to be a "proprietary order" (pursuant to the SFC Code), such prospective investor should indicate to the relevant Dealer when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". Where prospective investors disclose such information but do not disclose that such "proprietary order" may negatively impact the price discovery process in relation to the relevant CMI Offering, such "proprietary order" is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the relevant Dealers and/or any other third parties as may be required by the SFC Code, including to the Issuer, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. Failure to provide such information may result in that order being rejected.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of this Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

This Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Arrangers, the Dealers or the Agents (as defined below), nor any person who controls any of them, nor any director, officer, employee, nor agent of any of them, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers or the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

中国农业银行
AGRICULTURAL BANK OF CHINA

AGRICULTURAL BANK OF CHINA LIMITED
中國農業銀行股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

U.S.$15,000,000,000
Medium Term Note Programme

Under the U.S.$15,000,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), Agricultural Bank of China Limited 中國農業銀行股份有限公司 (the "**Bank**") and, in relation to any issue of Notes under the Programme, the Bank and the relevant issuing branch of the Bank located outside the PRC (including Agricultural Bank of China Limited Hong Kong Branch 中國農業銀行股份有限公司香港分行) specified as an issuer in the applicable Pricing Supplement (each an "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Notes (the "**Notes**"). The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$15,000,000,000 (or the equivalent in other currencies), subject to increases of the programme size made in accordance with the terms of an Amended and Restated Dealer Agreement dated 16 January 2023 (the "**Dealer Agreement**").

The Notes may be issued on a continuing basis to one or more of the Dealers appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Where applicable for a relevant tranche of Notes, the Notes will be issued within the relevant annual or otherwise general foreign debt issuance quota granted to the Bank pursuant to the Notice of the National Development and Reform Commission on Promoting the Reform of Managing the External Debt Issuance by Enterprises with a Record-Filing and Registration System (Fa Gai Wai Zi [2015] No. 2044)(國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC which came into effect on 14 September 2015, as amended and supplemented by any implementation or guidance rules or policies (including but not limited to a pilot programme) as issued by the NDRC from time to time (the "**NDRC Circular**"). Alternatively, separate pre-issue registration of a particular tranche of Notes may be completed by the Bank as set forth in the relevant Pricing Supplement. After the issuance of such relevant tranche of Notes, the Bank intends to provide the requisite information on the issuance of such Notes to the NDRC within the time period as required by the NDRC. The Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises will be invalidated by the Administrative Measures for the Examination and Registration of Medium and Long-term Foreign Debts of Enterprises (企業中長期外債審核登記管理辦法) issued by the NDRC on 5 January 2023, which will come into effect on 10 February 2023.

Investing in the Notes involves certain risks. See "Risk Factors" beginning on page 18.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**HKSE**") for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (the "**Professional Investors**") only during the 12-month period after the date of this document on the HKSE. This document is for distribution to Professional Investors only. **Notice to Hong Kong investors:** The Issuer confirms that the Notes are intended for purchase by Professional Investors only and, where they are listed on the HKSE, will be so listed on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The HKSE has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this Offering Circular. Listing of the Programme and the Notes on the HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Each Series (as defined in "*Summary of the Programme*") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "**temporary Global Note**") or a permanent global note in bearer form (each a "**permanent Global Note**" together with the temporary Global Note, (the "**Global Notes**")). Notes in registered form will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each holder of the Notes ("**Noteholder**") holding of Registered Notes of one Series. The Notes of each Series in registered form will initially be represented by a permanent global certificate (each a "**Global Certificate**") without interest coupons. The Global Notes and Global Certificates may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear and/or Clearstream, Luxembourg, with a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking SA ("**Clearstream, Luxembourg**") or with a sub-custodian for the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the "**CMU**") and (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg or CMU, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered or sold within the United States, or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the United States Securities Act of 1933 (the "**Securities Act**")) or, in the case of Bearer Notes, offered, sold or delivered in the United States, or to, or for the account or benefit of, United States persons (as defined in the Internal Revenue Code). For a description of certain restrictions on transfer, see "*Subscription and Sale*".

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**"). Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein (the "**Conditions**"), in which event a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

The Programme is expected to be rated "(P)A1" by Moody's Investors Service Hong Kong Ltd. ("**Moody's**"), "A" by Fitch Ratings Limited ("**Fitch**") and "A" by Standard & Poor's Ratings Services ("**S&P**"), a division of the McGraw-Hill Companies Inc. These ratings are only correct as at the date of this Offering Circular. Tranches of Notes (as defined in "*Summary of the Programme*") to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Arrangers and Dealers

Agricultural Bank of China Limited Hong Kong Branch | **ABC International** | **Standard Chartered Bank**

Dealers

BNP PARIBAS | **Citigroup**

Commonwealth Bank of Australia | **Crédit Agricole CIB** | **DBS Bank Ltd.**

Deutsche Bank | **First Abu Dhabi Bank** | **Goldman Sachs (Asia) L.L.C.**

HSBC | **J.P. Morgan** | **BofA Securities**

Mizuho | **Wells Fargo Securities**

Offering Circular dated 16 January 2023

IMPORTANT NOTICE

The Issuer, having made all reasonable enquiries, confirms that to the best of its knowledge this Offering Circular contains or incorporates all information which is material in the context of the issuance and offering of Notes, that the information contained or incorporated by reference in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading in any material respect and which, in each case, is material in the context of the issuance and offering of the Notes. The Issuer accepts responsibility accordingly.

This Offering Circular is to be read in conjunction with all documents which are incorporated herein by reference (see ''Documents Incorporated by Reference'').

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Arrangers or the Dealers (as defined in ''*Summary of the Programme*'') or the Agents (as defined in ''*Terms and Conditions of the Notes*'') (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them). Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes should be considered as a recommendation by the Issuer, any Dealer, any Arranger or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. This Offering Circular does not take into account the objectives, financial situation or needs of any potential investor. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, any Dealer, any Arranger or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Bank and its consolidated subsidiaries (together, the ''**Group**'') since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

PRIIPS REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (''**EEA**''). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPs REGULATION – PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of the EUWA; (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA or (iii) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation. Consequently no key information document required by the UK PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

MiFID II product governance / target market – The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise none of the Arrangers or the Dealers or any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MiFIR product governance / target market – The Pricing Supplement in respect of any Notes may include a legend entitled "**UK MiFIR Product Governance**" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise none of the Arrangers or the Dealers or any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Arrangers and the Dealers to inform themselves about and to observe any such restriction.

The Notes are being offered and sold to non-U.S. persons outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Offering Circular, see "*Subscription and Sale*".

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UP ON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Issuer, any Arranger, any Dealer or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) makes any representation to any investor in the Notes regarding the legality of its investment under any applicable law. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions.

None of the Issuer, the Arrangers, the Dealers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Pricing Supplement, no action has been taken by the Issuer, the Arrangers, the Dealers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, Hong Kong, Singapore, the PRC, Japan, Australia and New Zealand. See "*Subscription and Sale*".

To the fullest extent permitted by law, none of the Arrangers, the Dealers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by an Arranger or a Dealer or any Agent or on its behalf in connection with the Issuer, the Bank, the Group, the Programme or the issue and offering of the Notes. The Arrangers, the Dealers and the Agents (and any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Neither this Offering Circular nor any financial statements of the Issuer or the Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arrangers, the Dealers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) that any recipient of this Offering Circular or any financial statements of the Issuer or the Group should purchase the Notes. Each potential investor of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arrangers, the Dealers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them).

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purposes of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

The Arrangers, the Dealers and their respective subsidiaries and affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, corporate financing, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). The Arrangers, the Dealers and their respective subsidiaries and affiliates may have, from time to time, performed and may in the future perform, various Banking Services or Transactions with the Issuer, or its subsidiaries and affiliates, for which they have received, or will receive, customary fees and expenses.

In the ordinary course of their various business activities, the Arrangers, the Dealers and their respective subsidiaries and affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Issuer and its subsidiaries or affiliates. Certain of the Arrangers, the Dealers and their respective subsidiaries and affiliates may from time to time also enter into swap and other derivative transactions with the Issuer and its subsidiaries or affiliates. The Arrangers, the Dealers and their respective subsidiaries and affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

In connection with each Tranche of Notes issued under the Programme, the Arrangers, the Dealers or certain of their subsidiaries or affiliates, or the Issuer and its subsidiaries and affiliates, may act as investors and place orders, purchase and receive allocations and may trade the Notes for their own account and such orders, purchases, allocations or trade of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the offering of the relevant Tranche of Notes. Accordingly, references herein to the Notes being 'offered' should be read as including any offering of the Notes to the Arrangers, the Dealers and/or their respective subsidiaries, or to the Issuer and its subsidiaries and affiliates, as investors for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any applicable legal or regulatory requirements. If such transactions occur, the trading price and liquidity of the Notes may be impacted.

In making an investment decision, each potential investor must rely on its own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Issuer does not and the Arrangers, the Dealers and the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) do not make any representation regarding the legality of investment under any applicable laws.

Potential investors should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

Notification under Section 309B(1)(c) under the SFA: In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

In connection with any Tranche of Notes, one or more of the Dealers (or persons acting on their behalf) may act as the stabilisation manager(s) (the "Stabilisation Manager(s)"). The identity of the Stabilisation Manager(s) (if any) will be disclosed in the relevant Pricing Supplement. In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the closing date of the relevant Tranche of Notes. However, there is no obligation on such Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) to do this. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

In the Offering Circular, unless otherwise specified, references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China, all references to the "**PRC**" or "**China**" are to the People's Republic of China, excluding Taiwan, Hong Kong and Macau, references to "**U.S.$**", "**USD**" or "**U.S. dollars**" are to the lawful currency of the United States of America, references to "**Renminbi**", "**RMB**" or "**CNY**" are to the lawful currency of the PRC, and references to "**Hong Kong dollar**" or "**HK$**" are to the lawful currency of Hong Kong.

In this Offering Circular, unless otherwise specified, references to:

- "**the Bank**" and "**the Group**" refer to either or both of Agricultural Bank of China Limited 中國農業銀行股份有限公司 and the Bank's predecessor, Agricultural Bank of China, as applicable, and, except as the context otherwise requires, the subsidiaries of Agricultural Bank of China Limited 中國農業銀行股份有限公司 and of the Bank's predecessor, Agricultural Bank of China;

- the "**branch outlets**" include the head office, branches and outlets and other establishments of the Bank;

- a "**business day**" is a day that is not Saturday, Sunday or a public holiday in Hong Kong; and

- the terms "**associate**", "**subsidiary**" and "**substantial shareholder**" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

For ease of reference, in this Offering Circular, unless otherwise indicated, the terms "loans and advances to customers", "loans" and "loans to customers" are used synonymously.

In this Offering Circular, unless otherwise indicated, the discussions on loans are based on the Bank's gross loans and advances to customers, before taking into account the related allowance for impairment losses, rather than its net loans to customers. The Bank's loans and advances to customers are reported net of the allowance for impairment losses on its consolidated balance sheet.

The growth rates with respect to the business and financial data of the Bank presented in this Offering Circular are calculated based on amounts in millions of Renminbi.

Presentation of Financial Information

This Offering Circular contains the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2020. The Bank's audited consolidated financial statements as at and for the year ended 31 December 2020 were prepared in accordance with the International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board (the "**IASB**") and were audited by PricewaterhouseCoopers, the then auditors of the Bank. This Offering Circular also contains the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2021. The Bank's audited consolidated financial statements as at and for the year ended 31 December 2021 were prepared in accordance with the IFRS issued by the IASB and were audited by KPMG.

The Offering Circular also contains the unaudited condensed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2022 (which includes the comparative financial information for the six months ended 30 June 2021) (the "**2022 Interim Financial Statements**"). The 2022 Interim Financial Statements were prepared and presented in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("**IAS 34**") issued by the IASB and have been reviewed by KPMG, in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the International Auditing and Assurance Standards Board.

The 2022 Interim Financial Statements included in this Offering Circular have not been audited by KPMG.

The 2022 Interim Financial Statements were prepared and presented in accordance with IAS 34. However, the 2022 Interim Financial Statements should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit. The 2022 Interim Financial Statements should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ended 31 December 2022.

None of the Arrangers, the Dealers or the Agents nor any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them make any representation, or warranty, express or implied, regarding the sufficiency of the Bank's 2022 Interim Financial Statements for an assessment of the Bank's financial condition, results of operations and results.

The Bank has adopted IFRS 16 as issued by IASB with a date of initial application on 1 January 2019. The impact of the adoption of IFRS 16 is disclosed in Note II 1.1 of the Bank's audited consolidated financial statements as at and for the year ended 31 December 2019. According to the requirements of IFRS 16, the Group recognised the right-of-use assets at the commencement date, and recognised the lease liabilities at the present value of the outstanding lease payments. On 1 January 2019, the Bank recognised the right-of-use assets amounted RMB11,095 million and lease liabilities amounted RMB10,428 million. The implementation of IFRS 16 does not have any impact on net asset of the Group as at 1 January 2019. As permitted by the transitional provisions of IFRS 16, the Bank elected not to restate comparative figures.

Unless otherwise stated, all financial data contained herein which is stated as relating to the Bank refers to the consolidated data of the Group.

In this Offering Circular, because certain amounts have been rounded, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items, and actual numbers may differ from those contained herein due to rounding.

Documents Incorporated by Reference

The Issuer hereby incorporates by reference (i) each Pricing Supplement, (ii) the most recently published audited consolidated annual financial statements and the most recently published unaudited consolidated interim financial statements of the Bank published from time to time after the date of this Offering Circular in each case together with any audit or review reports prepared in connection therewith, and (iii) all amendments and supplements from time to time to this Offering Circular, each of which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with the contents of this Offering Circular.

The Bank publishes its consolidated quarterly interim reports in respect of the three months ended 31 March and 30 September of each financial year. A copy of the quarterly interim reports can be found on the website of the HKSE. The quarterly interim reports have not been and will not be audited or reviewed by the Bank's independent auditors and were and will be prepared under IFRS. The quarterly interim reports should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operation. The quarterly interim reports should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays and public holidays excepted) from the specified offices of the Issuer and of the Paying Agents set out at the end of this Offering Circular.

Supplemental Offering Circular

The Issuer has given an undertaking to the Arrangers and the Dealers that if it has notified the Arrangers or the Dealers in writing that it intends to issue Notes under the Programme for the time being, and if a significant new factor, material mistake or inaccuracy arises or is noted relating to the information included in the Offering Circular which is capable of affecting an assessment by investors of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and/or of the rights attaching to the Notes, it shall (i) prepare and publish an amendment or supplement to the Offering Circular, (ii) advise the Arrangers and the Dealers promptly of any proposal to amend or replace the Offering Circular, (iii) advise the Arrangers and Dealers promptly of any proposal to supplement the Offering Circular and (iv) provide the Arrangers and the Dealers with a copy of any such proposed amendment, supplement or replacement immediately prior to its publication.

Forward-Looking Statements

Certain statements under "*Risk Factors*", "*Business*" and elsewhere in this Offering Circular constitute "forward-looking statements". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate", "may", "will", "would", "could", "aim", "intend", "project", "potential", "future", "seek", "should" and similar words or the negative thereof, or expressions identify forward-looking statements.

In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Reliance should not be placed on these forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. The Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

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DEFINITIONS AND CONVENTIONS

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Accountholder"	each person who is for the time being shown in the records of the CMU operator as the holder of a particular principal amount of the Notes
"Articles of Association"	Articles of Association of the Bank, as constituted and amended from time to time. Except where the context otherwise requires, the Articles of Association refers to the Articles of Association of the Bank approved by CBIRC on 31 December 2012
"ATM"	Automatic Teller Machine
"Basel I"	1988 Basel Capital Accord
"Basel II"	the revised Basel Capital Framework promulgated in June 2004
"Basel III"	the newest Basel Capital Accord promulgated in December 2010
"Big Four"	Agricultural Bank of China, Bank of China, China Construction Bank and Industrial and Commercial Bank of China
"Capital Adequacy Regulations"	the Administrative Measures on Capital Adequacy Ratio of Commercial Banks (商業銀行資本充足率管理辦法), as promulgated by the CBIRC on 23 February 2004, effective as of 1 March 2004 and amended on 3 July 2007 (repealed and replaced by the Capital Management Regulations on 1 January 2013)
"Capital Management Regulations"	the Provisional Administrative Measures on Capital Management of Commercial Banks (商業銀行資本管理辦法(試行)), as promulgated by the CBIRC on 7 June 2012, effective as of 1 January 2013, and Article 25 of which has been invalidated by Provisions on the Additional Regulation of Systemically Important Banks (for Trial Implementation) (系統重要性銀行附加監管規定(試行)) issued on 30 September 2021 and effective on 1 December 2021
"CAGR"	compound annual growth rate
"CBIRC"	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), or former China Banking Regulatory Commission (中國銀行業監督管理委員會), which was merged with the CIRC to form CBIRC according to the Notice of the State Council regarding the Establishment of Organizations (國務院關於機構設置的通知) (Guo Fa [2018] No. 6) issued by the State Council on March 24, 2018, as appropriate
"China" or "PRC"	the People's Republic of China, but for the purpose of this Offering Circular only and except where the context requires, references in this Offering Circular to "China" and the "PRC" do not include Hong Kong, Macau and Taiwan
"CIRC"	China Insurance Regulatory Commission (中國保險監督管理委員會)

"CMU"	Central Moneymarkets Unit Service
"County Area" or "County Areas"	areas designated as counties or county-level cities under China's administrative division system. As an administrative division unit, a county or county-level city is generally directly below and under the direct supervision of its corresponding municipal-level or provincial-level government. County Areas include economically more developed county centres, towns and the vast rural areas within their jurisdictions
"County Area Banking Business" or "Sannong Banking Business"	a broad range of financial products and services the Bank provides to customers in the County Areas through the Bank's branch outlets located in counties and county-level cities in the PRC. The Bank refers to such banking business as the "County Area Banking Business" or "Sannong Banking Business"(三農金融業務), which are used interchangeably throughout this Offering Circular
"CPC Central Committee"	the Central Committee of the Chinese Communist Party
"CSRC"	China Securities Regulatory Commission(中國證券監督管理委員會)
"EEA"	European Economic Area
"Fiscal Agent"	Agricultural Bank of China Limited Hong Kong Branch 中國農業銀行股份有限公司香港分行
"FDI"	foreign direct investment
"GDP"	gross domestic product
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"HKMA"	Hong Kong Monetary Authority
"HKSE"	The Stock Exchange of Hong Kong Limited
"Huijin"	Central Huijin Investment Ltd(中央滙金投資有限責任公司), a state-owned investment company incorporated under the laws of the PRC
"IAS 34"	the International Accounting Standard 34 "Interim Financial Reporting" and its interpretation by the IASB
"IAS 39"	the International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" and its interpretations by the IASB
"IASB"	the International Accounting Standards Board
"IFRIC"	the International Financial Reporting Interpretations Committee
"IFRS"	International Accounting Standards, International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
"Internal Revenue Code"	the U.S. Internal Revenue Code of 1986 and the regulations thereunder

"Issuer"	Agricultural Bank of China Limited 中國農業銀行股份有限公司 and, in relation to any issue of Notes under the Programme, the relevant issuing branch of the Bank located outside the PRC (including Agricultural Bank of China Limited Hong Kong Branch 中國農業銀行股份有限公司香港分行) specified as the Issuer in the applicable Pricing Supplement
"Large Commercial Banks"	Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank and Industrial and Commercial Bank of China
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Macau"	the Macau Special Administrative Region of the PRC
"MOF"	Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"NAO"	National Audit Office of the PRC (中華人民共和國審計署)
"NBSC"	National Bureau of Statistics of China (中華人民共和國國家統計局)
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"National Joint Stock Commercial Banks"	China CITIC Bank, China Everbright Bank, Huaxia Bank, Guangdong Development Bank, Shenzhen Development Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank, China Minsheng Bank, Evergrowing Bank, Zheshang Bank and Bohai Bank
"non-performing loans"	identified impaired loans and advances
"Notes"	Notes issued under the U.S.$15,000,000,000 Medium Note Programme
"OFAC"	the Office of Foreign Assets Control of the U.S. Department of the Treasury
"PBOC"	People's Bank of China (中國人民銀行)
"POS"	point of sale, a checkout counter in a shop or any location where a transaction occurs
"PRC GAAP"	the PRC Accounting Standards and Accounting Regulations for Business Enterprises promulgated by the MOF on 15 February 2006 and its supplementary regulations
"QDIIs"	qualified domestic institutional investors in the PRC, which are licensed by the CSRC to invest in foreign securities markets
"QFIIs"	qualified foreign institutional investors licensed by the CSRC to invest in Renminbi-denominated shares listed on China's domestic securities exchanges
"Regulation S"	Regulation S under the U.S. Securities Act

"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"Sannong"	a short-hand reference to the Chinese pronunciation of the phrase "agriculture, rural areas and farmers" (農業、農村和農民). The terminology "Sannong" (三農) was initially created to refer to the three rural development issues in China (specifically, agriculture, rural areas and farmers) and has become an expression widely adopted by the policymakers in China. Throughout this Offering Circular, the Bank uses "Sannong" to refer to the PRC government's policies or vision, as applicable, aiming to promote agricultural industry, rural development and the welfare of China's farmers. The current economic development of China's County Areas directly benefits from the PRC government's "Sannong" policies
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"SAT"	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
"SHIBOR"	Shanghai Interbank Offered Rate, a daily reference rate published by the National Interbank Funding Centre
"SME" or "SMEs"	small- and medium-sized enterprises
"SSE"	The Shanghai Stock Exchange
"SSF"	National Council for Social Security Fund of the PRC (全國社會保障基金理事會)
"State Council"	the PRC State Council (中華人民共和國國務院)
"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"Urban Area" or "Urban Areas"	the rest of China other than the County Areas
"U.S. Securities Act" or "Securities Act"	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"WTO"	World Trade Organisation

In this Offering Circular, the Bank defines the geographical regions of China to which the Bank refers for the purpose of describing the Bank's branch network and presenting certain results of operations and financial condition as follows:

Geographical regions	Branches	
"Yangtze River Delta"	• Shanghai Municipality	• Zhejiang Province
	• Jiangsu Province	• City of Ningbo
"Pearl River Delta"	• Guangdong Province	• Fujian Province
	• City of Shenzhen	• City of Xiamen
"Bohai Rim"	• Beijing Municipality	• Shandong Province
	• Tianjin Municipality	• City of Qingdao
	• Hebei Province	
"Central China"	• Shanxi Province	• Jiangxi Province
	• Hubei Province	• Hainan Province
	• Henan Province	• Anhui Province
	• Hunan Province	
"Northeastern China"	• Liaoning Province	• Jilin Province
	• Heilongjiang Province	• City of Dalian
"Western China"	• Chongqing Municipality	• Xinjiang Autonomous Region
	• Sichuan Province	• The Xinjiang Production and Construction Corps
	• Guizhou Province	• Tibet Autonomous Region
	• Yunnan Province	• Inner Mongolia Autonomous Region
	• Shaanxi Province	• Guangxi Autonomous Region
	• Gansu Province	
	• Qinghai Province	
	• Ningxia Autonomous Region	

SUMMARY OF THE PROGRAMME

The following summary is qualified in its entirety by the remainder of this Offering Circular. Words and expressions defined in "Terms and Conditions of the Notes" below shall have the same meaning in this summary.

The Issuer	Agricultural Bank of China Limited 中國農業銀行股份有限公司 and, in relation to any issue of Notes under the Programme, the relevant issuing branch of the Bank located outside the PRC (including Agricultural Bank of China Limited Hong Kong Branch 中國農業銀行股份有限公司香港分行) specified as the Issuer in the applicable Pricing Supplement.
Description	Euro Medium Term Note Programme.
Size	Up to U.S.$15,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement. The Dealer Agreement provides for the U.S.$ equivalent of any Note denominated in another currency to be determined on or around the date agreement is reached to issue those Notes or, if the agreement date is not a date that commercial banks and foreign exchange markets are open for general business in London, on the preceding day on which commercial banks and foreign exchange markets are open for general business in London.
Risk Factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under "*Risk factors*" below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "*Risk factors*" and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
Arrangers	Agricultural Bank of China Limited Hong Kong Branch 中國農業銀行股份有限公司香港分行 ABCI Capital Limited 農銀國際融資有限公司 Standard Chartered Bank

Dealers	Agricultural Bank of China Limited Hong Kong Branch 中國農業銀行股份有限公司香港分行 ABCI Capital Limited 農銀國際融資有限公司 Standard Chartered Bank BNP Paribas Citigroup Global Markets Limited Commonwealth Bank of Australia Crédit Agricole Corporate and Investment Bank DBS Bank Ltd. Deutsche Bank AG, Singapore Branch First Abu Dhabi Bank PJSC Goldman Sachs (Asia) L.L.C. The Hongkong and Shanghai Banking Corporation Limited J.P. Morgan Securities plc Merrill Lynch (Asia Pacific) Limited Mizuho Securities Asia Limited Wells Fargo Securities International Limited The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to "**Permanent Dealers**" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "**Dealers**" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Fiscal Agent	Agricultural Bank of China Limited Hong Kong Branch 中國農業銀行股份有限公司香港分行.
Transfer Agents	Agricultural Bank of China Limited Hong Kong Branch 中國農業銀行股份有限公司香港分行.
Registrar	Agricultural Bank of China Limited Hong Kong Branch 中國農業銀行股份有限公司香港分行.
CMU Lodging and Paying Agent	Agricultural Bank of China Limited Hong Kong Branch 中國農業銀行股份有限公司香港分行.

Method of Issue	The Notes may be issued on a syndicated or non-syndicated basis. The Notes may be issued in series (each a "**Series**") having one or more issue dates (each tranche within such Series, a "**Tranche**") and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest, nominal amount of the Tranche and the timing for notification to the NDRC, will be identical to the terms of other Tranches of the same Series) will be set out in a pricing supplement (a "**Pricing Supplement**").
Issue Price.	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes	Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"). Registered Notes will not be exchangeable for Bearer Notes and vice versa. Each Tranche of Bearer Notes will initially be in the form of either a temporary Global Note or a permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary or sub-custodian for Euroclear, Clearstream, Luxembourg and/or as the case may be, the CMU and/or any other relevant clearing system. Each temporary Global Note will be exchangeable for a permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a temporary Global Note or receipt of any payment of interest in respect of a temporary Global Note. Each permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "**Global Certificates**". Registered Notes sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by a Global Certificate.
Clearing Systems	The CMU, Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer.

Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or deposited with a sub-custodian for the HKMA as operator of the CMU or deposited with a depositary or sub-custodian for any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealers. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealers.
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity.
Specified Denomination	Definitive Notes will be in such denominations as may be specified in the relevant Pricing Supplement, save that unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., as amended, supplemented or replaced; (ii) by reference to EURIBOR or HIBOR or CNH HIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin; (iii) on the basis of SOFR reference rates appearing on the agreed screen page of a commercial quotation service (in relation to Screen Rate Determination for Floating Rate Notes where the Reference Rate is specified as being SOFR Benchmark, please see Condition 5(b)(iii)(C)); or

(iv) on such other basis as may be agreed between the Issuer and the relevant Dealer.

Interest periods will be specified in the relevant Pricing Supplement. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each series of Floating Rate Notes.

Zero Coupon Notes	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Pricing Supplement.
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.
Redemption and Redemption Amounts	The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Redemption by Instalments. . .	The Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Other Notes.	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.
Optional Redemption	The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.

Status of the Notes	The Notes issued by the Issuer will constitute direct, unconditional, unsubordinated and (subject to Condition 4(a)) unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer other than any such obligations as are preferred by law, all as further described in Condition 3.
Negative Pledge	See "*Terms and Conditions of the Notes – Negative Pledge*".
Events of Default	See "*Terms and Conditions of the Notes – Events of Default*".
Cross Default.	See the relevant sub-condition under "*Terms and Conditions of the Notes – Events of Default*".
Ratings	The Programme is expected to be rated "(P)A1" by Moody's, "A" by Fitch and "A" by S&P. Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Early Redemption	Except as provided in "Optional Redemption" above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See "*Terms and Conditions of the Notes – Redemption, Purchase and Options*".
Withholding Tax	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of a Tax Jurisdiction, subject to customary exceptions, all as described in "*Terms and Conditions of the Notes – Taxation*".
Governing Law and Jurisdiction	English law, with submission to the jurisdiction of the courts of England.
Listing	Application has been made to the HKSE for the listing of the Programme, under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this document on the HKSE. Application may be made to list the Notes issued by way of debt issues to Professional Investors only under the Programme on the HKSE. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Legal Entity Identifier	549300E7TSGLCOVSY746

Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the EEA, the United Kingdom, Hong Kong, Singapore, the PRC, Japan, Australia and New Zealand, see "*Subscription and Sale*" below.

SUMMARY FINANCIAL INFORMATION OF THE BANK

The summary historical consolidated financial information of the Bank as at and for the years ended 31 December 2019, 2020 and 2021 and as at and/or for the six months ended 30 June 2021 and 2022 set forth below is derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2020 and 2021 and from the Bank's unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2022, which are included elsewhere in this Offering Circular. The Bank's audited consolidated financial statements as at and for the year ended 31 December 2020 (which include the comparative financial information as at and for the year ended 31 December 2019) were prepared in accordance with IFRS and have been audited by PricewaterhouseCoopers in accordance with International Standards on Auditing. The Bank's audited consolidated financial statements as at and for the year ended 31 December 2021 were prepared in accordance with IFRS and have been audited by KPMG in accordance with International Standards on Auditing. The Bank's unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2022 (which include the comparative financial information for the six months ended 30 June 2021) were reviewed by KPMG in accordance with International Standard on Review Engagements 2410.

The 2022 Interim Financial Statements included in this Offering Circular have not been audited by KPMG.

The 2022 Interim Financial Statements were prepared and presented in accordance with IAS 34. However, the 2022 Interim Financial Statements should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit. The 2022 Interim Financial Statements should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ended 31 December 2022.

None of the Arrangers, the Dealers or the Agents nor any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them make any representation, or warranty, express or implied, regarding the sufficiency of the Bank's 2022 Interim Financial Statements for an assessment of the Bank's financial condition, results of operations and results.

The Bank has adopted IFRS 16 as issued by IASB with a date of initial application on 1 January 2019. The impact of the adoption of IFRS 16 is disclosed in Note II 1.1 of the Bank's audited consolidated financial statements as at and for the year ended 31 December 2019. According to the requirements of IFRS 16, the Group recognised the right-of-use assets at the commencement date, and recognised the lease liabilities at the present value of the outstanding lease payments. On 1 January 2019, the Bank recognised the right-of-use assets amounted RMB11,095 million and lease liabilities amounted RMB10,428 million. The implementation of IFRS 16 does not have any impact on net asset of the Group as at 1 January 2019. As permitted by the transitional provisions of IFRS 16, the Bank elected not to restate comparative figures.

Summary historical financial information should be read in conjunction with the Bank's audited consolidated financial statements and the notes thereto and the Bank's unaudited but reviewed condensed consolidated interim financial statements and the notes thereto, which are included from page F-2 of this Offering Circular. The historical results do not necessarily indicate the expected results for any future period of the Bank.

Summary historical consolidated statements of profit or loss

	For the year ended 31 December			For the six months ended 30 June	
	2019	2020	2021	2021	2022
	(Audited) *CNY* *(in millions)*	*(Audited)* *CNY* *(in millions)*	*(Audited)* *CNY* *(in millions)*	*(Unaudited)* *CNY* *(in millions)*	*(Unaudited)* *CNY* *(in millions)*
Interest income	873,140	930,932	1,008,014	493,471	542,773
Interest expense	(372,270)	(385,853)	(430,027)	(210,114)	(242,554)
Net interest income	500,870	545,079	577,987	283,357	300,219
Fee and commission income.	88,316	91,166	98,721	57,487	56,227
Fee and commission expense	(15,389)	(16,621)	(18,392)	(9,337)	(6,738)
Net fee and commission Income	72,927	74,545	80,329	48,150	49,489
Net trading gain	19,067	16,405	14,241	8,359	7,762
Net gain/(loss) on financial investments	5,793	(7,312)	15,035	1,432	3,188
Net gain on derecognition of financial assets measured at amortized cost	–	1	11	1	101
Other operating income	30,693	30,614	34,143	24,955	26,900
Operating income	629,350	659,332	721,746	366,254	387,659
Operating expenses	(224,096)	(229,897)	(260,275)	(116,691)	(125,971)
Credit impairment losses	(138,605)	(164,699)	(165,886)	(96,138)	(105,530)
Impairment losses on other assets	(118)	(204)	(114)	(3)	(17)
Operating profit	266,531	264,532	295,471	153,422	156,141
Share of result of associate and joint ventures	45	518	409	116	130
Profit before tax	266,576	265,050	295,880	153,538	156,271
Income tax expense	(53,652)	(48,650)	(53,944)	(30,705)	(27,321)
Profit for the year/period	212,924	216,400	241,936	122,833	128,950
Attributable to:					
– Equity holders of the Bank	212,098	215,925	241,183	122,278	128,945
– Non-controlling interests	826	475	753	555	5
	212,924	216,400	241,936	122,833	128,950
Earnings per share attributable to the ordinary equity holders of the Bank (expressed in CNY per share) – Basic and diluted	0.59	0.59	0.65	0.34	0.35

Summary historical consolidated statements of financial position

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	(Audited) CNY (in millions)	*(Audited) CNY (in millions)*	*(Audited) CNY (in millions)*	*(Unaudited) CNY (in millions)*
Assets				
Cash and balances with central bank	2,699,895	2,437,275	2,321,406	2,669,527
Deposits with banks and other financial institution	235,742	434,185	218,500	382,388
Precious metals	30,063	87,357	96,504	181,386
Placements with and loans to banks and other financial institutions	523,183	546,948	446,944	541,846
Derivative financial assets	24,944	61,937	21,978	33,174
Financial assets held under resale agreements	708,551	816,206	837,637	1,106,640
Loans and advances to customers	12,819,764	14,552,433	16,454,503	18,036,172
Financial assets at fair value through profit or loss	801,361	583,069	460,241	459,865
Debt instrument investments at amortized cost	4,946,741	5,684,220	6,372,522	6,938,657
Other debt instrument and other equity investments at fair value through other comprehensive income	1,674,828	1,555,370	1,397,280	1,567,433
Investment in associates and joint ventures	6,672	8,865	8,297	8,691
Property and equipment	152,484	151,154	153,299	149,315
Goodwill	1,381	1,381	1,381	1,381
Deferred tax assets	120,952	133,355	143,027	148,034
Other assets	130,930	151,292	135,636	201,911
Total assets	24,877,491	27,205,047	29,069,155	32,426,420
Liabilities and Shareholders' Equity				
Borrowings from central banks	608,536	737,161	747,213	939,268
Deposits from banks and other financial institutions	1,503,909	1,394,516	1,622,366	2,156,237
Placements from banks and other financial institutions	325,363	390,660	291,105	349,260
Financial liabilities at fair value through profit or loss	30,234	27,817	15,860	11,840
Derivative financial liabilities	29,548	65,282	19,337	23,410
Financial assets sold under repurchase agreements	53,197	109,195	36,033	20,574
Due to customers	18,849,155	20,372,901	21,907,127	24,119,854
Dividends payable	–	–	–	72,377
Debt securities issued	1,108,212	1,371,845	1,507,657	1,775,531
Deferred tax liabilities	520	334	655	532
Other liabilities	414,956	524,590	500,443	431,324
Total liabilities	22,923,630	24,994,301	26,647,796	29,900,207
Ordinary shares	349,983	349,983	349,983	349,983
Other equity instruments	199,886	319,875	359,872	409,869
Preference shares	79,899	79,899	79,899	79,899
Perpetual bonds	119,987	239,976	279,973	329,970
Capital reserve	173,556	173,556	173,556	173,556
Investment revaluation reserve	29,684	25,987	34,927	36,130
Surplus reserve	174,910	196,071	220,792	220,814
General reserve	277,016	311,449	351,616	385,387
Retained earnings	741,101	828,240	925,955	943,837
Foreign currency translation reserve	2,219	(372)	(2,096)	(80)
Equity attributable to equity holders of the Bank	1,948,355	2,204,789	2,414,605	2,519,496
Non-controlling interests	5,506	5,957	6,754	6,717
Total equity	1,953,861	2,210,746	2,421,359	2,526,213
Total equity and liabilities	**24,877,491**	**27,205,047**	**29,069,155**	**32,426,420**

Capital Ratio Data for the Bank

Capital Adequacy Indicators

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
Common equity tier 1 capital adequacy ratio[(1)]	11.24%	11.04%	11.44%	11.11%
Tier 1 capital adequacy ratio[(1)]	12.53%	12.92%	13.46%	13.28%
Capital adequacy ratio[(1)]	16.13%	16.59%	17.13%	17.09%
Asset Quality Indicators				
Non-performing loan ratio[(2)]	1.40%	1.57%	1.43%	1.41%
Allowance to non-performing loans[(3)]	288.75%	260.64%	299.73%	304.91%
Allowance to loan ratio[(4)]	4.06%	4.08%	4.30%	4.30%

Notes:

(1) Figures were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations.

(2) Calculated by dividing balance of non-performing loans (excluding accrued interest) by the balance of total loans and advances to customers (excluding accrued interest).

(3) Calculated by dividing the balance of allowance for impairment losses on loans (excluding accrued interest) by the balance of non-performing loans (excluding accrued interest), among which, the balance of allowance for impairment losses on loans (excluding accrued interest) does not include the allowance for impairment losses on bills and forfeiting recognized in other comprehensive income.

(4) Calculated by dividing the balance of allowance for impairment losses on loans (excluding accrued interest) by the balance of total loans and advances to customers (excluding accrued interest), among which, the balance of allowance for impairment losses on loans (excluding accrued interest) does not include the allowance for impairment losses on bills and forfeiting recognized in other comprehensive income.

Other financial indicators

		Regulatory standard	As at 31 December			As at 30 June
			2019	**2020**	**2021**	**2022**
Liquidity Ratio (%)[(1)]	Renminbi	≥25	57.74	59.15	62.01	65.29
	Foreign Currency	≥25	112.07	122.98	138.94	168.54
Percentage of loans to the largest single customer (%)[(2)]		≤10	4.68	4.07	2.44	2.18
Percentage of loans to top ten customers (%)[(3)]			13.83	12.58	11.67	11.32
Loan migration ration (%)[(4)]	Normal		1.54	3.19	1.10	1.41
	Special mention		15.90	30.55	20.23	31.18
	Substandard		47.10	83.79	57.43	68.75
	Doubtful		8.82	20.46	13.66	6.68

Notes:

(1) Calculated by dividing current assets by current liabilities in accordance with the relevant regulations of the CBIRC.

(2) Calculated by dividing total loans to the largest single customer (excluding accrued interest) by net capital.

(3) Calculated by dividing total loans to top ten customers (excluding accrued interest) by net capital.

(4) Calculated in accordance with the relevant regulations of the CBIRC, reflecting domestic data only.

Operating income by business

	For the year ended 31 December			For the six months ended 30 June	
	2019	2020	2021	2021	2022
	(Audited) *CNY* (in millions)	*(Audited)* *CNY* (in millions)	*(Audited)* *CNY* (in millions)	*(Unaudited)* *CNY* (in millions)	*(Unaudited)* *CNY* (in millions)
Corporate banking business	271,113	260,853	269,899	149,554	146,934
Retail banking business	240,579	277,603	318,402	138,226	179,581
Treasury operations	79,102	77,179	85,942	46,644	26,962
Other operations	38,556	43,697	47,503	31,830	34,182
Total	629,350	659,332	721,746	366,254	387,659

Key financial indicators of County Area Banking Business

	As at and for the year ended 31 December			As at and for the six months ended 30 June	
	2019	2020	2021	2021	2022
Average yield of loans (%)	4.74	4.63	4.45	4.47(2)	4.38(2)
Average cost of deposits (%)	1.51	1.46	1.55	1.54(2)	1.62(2)
Net fee and commission income to operating income (%)	11.77	11.19	10.49	12.81	12.12
Cost-to-income ratio (%)(1)	37.37	34.09	34.51	29.03	27.87
Loan-to-deposit ratio (%)	57.19	60.60	66.06	63.24	66.96
Non-performing loan ratio (%)	1.58	1.52	1.42	1.51	1.35
Allowance to non-performing loans (%)	315.18	307.31	332.10	304.72	340.83
Allowance to loan ratio (%)	4.99	4.67	4.71	4.60	4.62

Notes:

(1) Calculated by dividing operating and administrative expenses by operating income under CASs, which is consistent with the corresponding figures as stated in the financial report of the Bank prepared in accordance with CASs.

(2) Annualised figures.

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information contained in this Offering Circular, including the risks and uncertainties described below. The Bank's business, financial condition or results of operations could be materially adversely affected by any of these risks. The Bank believes that the following factors may affect the Bank's ability to fulfil its obligations under the Notes. Additional considerations and uncertainties not presently known to the Bank or which the Bank currently deems immaterial may also have an adverse effect on an investment in the Notes. All of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Bank believes may be material for the purpose of assessing the market risks associated with the Notes are described below. The Bank believes that the factors described below represent the principal risks inherent in investing in the Notes, but its inability to repay principal, pay interest (if any) or other amounts or fulfil other obligations on or in connection with the Notes may occur for other reasons and it does not represent that the statements below regarding the risks of holding the Notes are exhaustive.

Risks relating to the Bank's loan portfolio

The Bank has a concentration of loans to certain regions, industries and customers, and if the conditions of these regions or these industries, or the financial conditions of these customers deteriorate significantly, its asset quality, financial condition and results of operations may be materially and adversely affected.

As at 30 June 2022, 40.4 per cent. of the Bank's total loans and 54.1 per cent. of its non-performing loans originated in Western, Central and North-eastern China. Although these regions may currently benefit economically from favourable government policies, any of these economic policies may change in the future and the implementation of such policies may not be as effective as the Bank anticipates, nor can the Bank control or influence the change of such policies in these regions. A significant economic downturn in any of these regions, which may be caused by, among others, the outbreak of the coronavirus disease 2019 ("**COVID-19**"), the global uncertainty resulting from the ongoing trade dispute between the PRC and the United States as well as the Russia-Ukraine conflict, or any inaccurate assessment or the Bank's failure in the management of the credit risks regarding borrowers who are located, or have substantial operations, in such regions, whether due to changes in government policies or otherwise, may materially and adversely affect its asset quality, financial condition and results of operations.

As at 30 June 2022, the Bank's loans to China's (i) manufacturing; (ii) transportation, storage and postal services; (iii) real estate; (iv) leasing and commercial services and (v) production and supply of electricity, heating, gas and water industries represented 17.6 per cent., 21.6 per cent., 8.2 per cent., 16.1 per cent. and 10.8 per cent. of its total corporate loans outstanding, respectively. A significant downturn in any industry in which its loans are highly concentrated may lead to a significant increase in nonperforming loans, and may negatively affect the level of new lending or refinancing of existing loans to borrowers in that industry, which may materially and adversely affect its asset quality, financial condition and results of operations.

In accordance with PRC national policies aimed at restricting the over-development of certain industries with excess capacity, including wind power equipment, steel, cement, coal, chemical and flat glass, among other industries, the Bank has adopted a strict policy towards making loans to these industries. In order to reduce its loan exposure and strictly control risks associated with loans to these high-risk industries, the Bank carefully manages the size of its loans to these industries. If the PRC government introduces policies which further restrict the development of these industries and/or these industries otherwise experience a deterioration in their operations, such changes may adversely affect the quality of the Bank's loans to these industries.

In addition, the Bank is exposed to the real estate market in China through, in particular, residential mortgage loans and other loans secured by real property collateral. As at 30 June 2022, the Bank's residential mortgage loans represented 71.5 per cent. of its domestic retail loans outstanding. The PRC government has imposed and may continue to impose macroeconomic control measures aimed at cooling down the real estate market. Such measures may adversely affect the growth and quality of the Bank's loans to the real estate industry and the Bank's residential mortgage loans. On the other hand, a downturn in the PRC's real estate market may materially and adversely affect the quality of the Bank's existing loans and its ability to generate new loans, which in turn could have a material adverse effect on the Bank's asset quality, financial condition and results of operations.

As at 30 June 2022, the Bank's loans to its top ten customers totalled CNY365.3 billion, which represented 1.95 per cent. of its total loan portfolio. The Bank's loans to the top ten customers were classified as performing. If any of the performing loans to the top ten customers deteriorates or becomes non-performing, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Furthermore, the Bank also provides loans to SMEs and agriculture-related industries and customers. The loans to SMEs and agriculture-related industries and customers are, compared to its other loans, generally more vulnerable to the adverse impact of certain factors such as natural disasters and economic slowdown. In addition, as the COVID-19 outbreak hampers business activities in the world, including China, CBIRC has promulgated a series of measures to relax credit controls and increase financial support to SMEs to combat the challenges arising from the COVID-19 outbreak. In particular, it has encouraged banking institutions to increase lending to SMEs by lowering loan rates and increasing the amounts these enterprises could borrow. However, SMEs are more vulnerable to fluctuations in the macro-economy and the adverse impact brought by major economic crisis or regulatory changes. In addition, these enterprises may not be able to provide reliable information necessary for the Bank to assess the credit risks involved. In the absence of accurate assessment of the relevant credit risks, the non-performing loans of the Bank may be significantly increased if its SME clients are affected by major economic crisis or regulatory changes. As a result, this may have an impact on the Bank's overall risk profile and quality of the loan portfolio, which could in turn materially and adversely affect its business, financial condition and results of operations. Separately, there can be no assurance that the policies, laws and regulations governing the PRC banking industry, in particular, those relating to lending to SMEs (e.g. incentive policies to encourage lending to SMEs), will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial condition and results of operations. The Bank adopted a number of measures to manage these risks, such as imposing stricter requirements on approving credit applications and charging higher interest rates, but there can be no certainty that these measures will effectively reduce or eliminate the risks relating to such industries or customers. If the Bank's loans to SMEs and agriculture-related industries and customers deteriorate, its asset quality, financial condition and results of operations may be materially and adversely affected.

If the Bank is unable to effectively maintain the quality of its loan portfolio, its financial condition and results of operations may be materially and adversely affected.

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Bank's non-performing loan ratio was 1.40 per cent., 1.57 per cent., 1.43 per cent. and 1.41 per cent., respectively and as at the same dates, the Bank's non-performing loans amounted to CNY187.2 billion, CNY237.1 billion, CNY245.8 billion and CNY264.5 billion, respectively. There can be no assurance that the Bank will be able to maintain or lower its current non-performing loan ratio in the future or that the quality of its existing or future loans and advances to customers will not deteriorate.

The quality of the Bank's loan portfolio may deteriorate in the future due to various reasons, including factors beyond the Bank's control, such as restructuring of the PRC economy, PRC government's initiative to tackle overcapacity in certain industries, a slowdown in the PRC or global economies, a relapse of the global credit crisis, adverse macroeconomic trends in China and other parts of the world and the occurrence of natural disasters and outbreaks of contagious diseases, all of which could impair the ability of the Bank's borrowers to service their outstanding debt. Inflation in China may cause rising costs and negatively impact the profitability of the Bank's corporate customers, which in turn may lead to significant increases in the Bank's allowance made for impaired loans. The actual or perceived deterioration in creditworthiness of counterparties, declines in residential and commercial property prices and resulting reduction in collateral values, higher unemployment rates and reduced profitability of corporate borrowers may also cause the Bank's asset quality to deteriorate and may lead to significant increases in allowance made for impaired loans. If the Bank's non-performing loans or the allowance made for impaired loans increase in the future, the results of its operations and financial condition may be materially and adversely affected. In addition, the sustainability of the Bank's growth also depends largely on its ability to effectively manage its credit risk and maintain or improve the quality of its loan portfolio. The Bank seeks to continuously improve its credit risk management policies, procedures and systems. However, there can be no certainty that the Bank's credit risk management policies, procedures and systems are effective or free from deficiency. Failure of the Bank's credit risk management policies, procedures and systems may result in an increase in its non-performing loans and adversely affect the quality of its loan portfolio.

The Bank's allowance for impairment losses may not be sufficient to cover the actual losses on its loan portfolio in the future.

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Bank's allowance for impairment losses on loans was CNY540.6 billion, CNY618.0 billion, CNY720.6 billion and CNY308.5 billion, respectively. For the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022, the ratio of its allowance for impairment losses to total loans was 4.2 per cent., 4.2 per cent., 4.3 per cent. and 4.3 per cent., respectively and the ratio of its allowance for impairment losses to non-performing loans was 295.5 per cent., 266.2 per cent., 299.7 per cent. and 304.9 per cent., respectively. The allowance is based on the Bank's current assessment of, and expectations concerning, various factors affecting the quality of its loan portfolio. These factors include, among other things, borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral, the ability of the guarantors of the borrowers to fulfil their obligations and the implementation of the Bank's credit policies, as well as China's economy, macroeconomic policies, interest rates, exchange rates, and legal and regulatory environments. Many of these factors are beyond the Bank's control, and therefore its assessment and expectations on these factors may differ from future developments. The adequacy of the Bank's allowance for impairment losses depends on the reliable application of its risk assessment system to estimate these potential losses, as well as its ability to accurately collect, process and analyse the relevant statistical data. If the Bank's assessment of, and expectations concerning, the factors that affect the quality of its loan portfolio differ from actual developments, if its assessment results prove to be inaccurate, or if its application of the assessment systems or its ability to collect relevant statistical data proves to be insufficient, the Bank's allowance for impairment losses may not be adequate to cover its actual losses and the Bank may need to make additional provisions for impairment losses, which may reduce its profit and therefore materially and adversely affect its asset quality, financial conditions and results of operations.

The collateral or guarantees securing the Bank's loans may not be sufficient, and the Bank may be unable to realise the full value of the collateral or guarantees in a timely manner or at all.

A significant portion of the Bank's loans is secured by collateral or guarantees. As at 30 June 2022, 43.8 per cent. and 13.6 per cent. of its total loans were secured by mortgages and pledges, respectively, and 11.9 per cent. of its total loans were secured by guarantees.

The pledged collateral securing the Bank's loans includes, among other things, bond or equity securities. The mortgages securing the Bank's loans primarily comprise real properties and other assets located in China. The value of the collateral securing its loans may significantly fluctuate or decline due to factors beyond the Bank's control, including macroeconomic factors affecting China. For example, a downturn in China's real estate market may result in a decline in the value of the real properties securing the Bank's loans to levels significantly below the outstanding principal and interest balances of such loans. Any decline in the value of such collateral may reduce the amounts the Bank can recover from such collateral and increase its impairment losses.

The Bank's policies require regular internal re-valuations of collateral. However, such policies may not be implemented in a timely manner and, as a result, it may not have updated valuation of such collateral, which may adversely affect the accuracy of the assessment of its loans secured by such collateral.

Some of the guarantees securing the Bank's loans were provided by the borrowers' affiliates. Such loans and advances are generally not backed by collateral or security interests other than guarantees. A significant deterioration in the financial condition of a guarantor could significantly decrease the amounts the Bank may recover under such guarantees. Moreover, guarantees are subject to the risk that a court or other judicial or government authorities may declare a guarantee to be invalid or otherwise decline or fail to enforce such guarantees. The Bank is therefore exposed to the risk that it may not be able to recover all or any part of the amounts guaranteed in respect of its loans.

In China, the procedures for liquidating or otherwise realising the value of collateral in the form of non-monetary assets may be protracted and it may be difficult to enforce claims in respect of such collateral. As a result, it may be difficult and time-consuming for the Bank to take control of or liquidate the collateral securing non-performing loans. For example, in accordance with Provisions of the Supreme People's Court on Seizing, Distraining and Freezing Property in Civil Enforcement by People's Courts (最高人民法院關於人民法院民事執行中查封、扣押、凍結財產的規定) promulgated on 4 November 2004 and last revised on 29 December 2020, the PRC courts may seize residential premises necessary to the person subject to enforcement and his dependents for living, but may not auction or sell off such premises, or use them to offset debts. In addition, under certain circumstances, the Bank's rights to the collateral securing its loans may have lower priority than certain other rights. For example, according to the PRC Bankruptcy Law (中華人民共和國企業破產法), claims for the amount that a company in bankruptcy owed to its employees prior to 27 August 2006, including salaries, medical insurance claims and basic pension benefits, will have priority over the Bank's rights to the collateral, if not adequately provided for in accordance with liquidation proceedings.

The Bank's inability to realise the full value of the collateral and guarantees securing its loans on a timely basis may materially and adversely affect its asset quality, financial condition or results of operations.

The Bank's loan classification and provisioning policies may be different in certain respects from those applicable to banks in certain other countries or regions.

The Bank classifies its loans using a five-category loan classification system in accordance with the guidelines set forth by the PRC regulators. The five categories are normal, special mention, substandard, doubtful and loss. The Bank assesses its loans for impairment, determines a level of allowance for impairment losses and recognises any related provisions made in a year using the five-category classification system. It performs such assessment, determination and recognition using the concept of impairment under IAS 39. For its corporate loans classified as substandard or lower, it makes an assessment of the impairment allowance on an individual loan basis. For the performing corporate loans and for all of the retail loans, it makes a collective assessment based on its historical loan loss experience. The Bank's loan classification and impairment provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, the Bank's loan classification as well as its allowance for impairment losses may differ from those reported by international banks incorporated in those countries or regions.

If the Bank does not maintain the growth of its loan portfolio, its business operations and financial condition may be materially and adversely affected.

The Bank's loans and advances to customers, net of loan loss allowance, have grown significantly in the past few years, increasing to CNY18,036.2 billion as at 30 June 2022 from CNY16,454.5 billion as at 31 December 2021 and CNY14,552.4 billion as at 31 December 2020. The growth of its loan portfolio may be affected by various factors, such as China's macroeconomic policies and capital constraints. Since 2014, the growth rate of the Bank's total loan portfolio has maintained a relatively steady pace. There can be no assurance that the growth rate of the Bank's loan portfolio will be maintained in the future, it may slow down or even decline. In addition, in response to the constraints from the amount of its regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio and expand its activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of its loan portfolio and thereby materially and adversely affect its business, business prospects, financial condition and results of operations.

Deterioration in the debt repayment abilities of local government financing vehicles of which the Bank has extended loans to, may materially and adversely affect the Bank's asset quality, financial condition and results of operations.

Loans extended to local government financing vehicles have been a part of the loan portfolio of China's commercial banks. According to the CBIRC, local government financing vehicles consist primarily of government-led vehicles and vehicles whose shares are controlled by the government. These vehicles primarily engage in financing activities wholly or partially supported by the direct or indirect repayment commitments or direct or indirect guarantees from local governments, to provide support to various infrastructure development and quasi-public interest government investment projects. The Bank extends loans primarily to local government financing vehicles for transportation and urban development as well as those vehicles relating to land reserve centres, economic development zones, industry parks or state asset management companies. Within China's administrative division system, the recipients of these loans generally rank at or above the district city level. The Bank targets its loans to local government financing vehicles mainly to China' economically developed areas, including the Yangtze River Delta, Pearl River Delta and Bohai Rim regions. The majority of its loans to local government financing vehicles are backed by mortgages, pledges or guarantees and have remaining maturities of five years or less.

The State Council, the CBIRC and the PBOC, along with several other PRC regulatory authorities promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to local government financing vehicles with the aim of reinforcing the risk management of loans to local government financing vehicles. While the Bank has taken various measures to reduce the risks of default such as setting clear thresholds for its loans to local government financing vehicles and enhancing the mortgages and guarantees on such loans, unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments or other factors may adversely affect the debt repayment ability of these financing vehicles, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations.

The PRC government shall under no circumstances have any obligation arising out of or in connection with the Notes, which is solely to be fulfilled by the Issuer.

The Issuer is not part of the PRC government. The PRC government is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Notes. This position has been reinforced by the Circular of the Ministry of Finance on Issues relevant to the Regulation on the Financing Activities Conducted by Financial Institutions for Local Governments and State-owned Enterprises（財政部關於規範金融企業對地方政府和國有企業投融資行為有關問題的通知，財金[2018]23號）(the "**MOF Circular**") promulgated on 28 March 2018 and took effect on the same day, and the

Circular of the National Development and Reform Commission and the Ministry of Finance on Improvement of Market Regulatory Regime and Strict Prevention of Foreign Debt Risks and Local Government Indebtedness Risks(國家發展改革委財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知)(the "**Joint Circular**") promulgated on 11 May 2018 and took effect on the same day. The description of the relationships between the Issuer and the PRC government in this Offering Circular does not imply in any way any explicit or implicit credit support of the PRC government in respect of the Notes, the repayment of which remains the sole responsibilities of the Issuer.

The PRC government does not have any payment obligations under the Notes or the transaction documents in relation to the Notes. The Notes are solely to be repaid by the Issuer as an obligor under the relevant transaction documents and as an independent legal person. The Noteholders do not have any recourse against the PRC government in respect of any obligation arising out of or in connection with the Notes or the transaction documents. Any ownership or control by the PRC government does not necessarily correlate to, or provide any assurance as to, the Issuer's financial condition.

Risks relating to the Bank's business

Uncertainties and instability in global market conditions could adversely affect the Bank's business, financial condition and results of operations.

The Bank has been, and in the future will continue to be, materially affected by geo-political, economic and market conditions, including factors such as the liquidity of the global financial markets, the level and volatility of debt and equity prices, interest rates, currency and commodities prices, investor sentiment, inflation, and the availability and cost of capital and credit. Emerging from the peak of the global financial crisis, some countries started to withdraw the stimulus packages previously executed and implemented more moderate monetary policies. Currently, the employment, credit and property market conditions of developed economies are still unstable and this is further exacerbated by the political instability around the world.

While the International Monetary Fund expects global economic growth to be 3.2 per cent. in 2022, there are a number of uncertainties ahead. The escalating tensions between the PRC and the United States, including ongoing trade disputes and deterioration in diplomatic relations, the delisting of Chinese companies listed on the United States stock exchanges and the recent export controls promulgated by the United States on specific highend technology, have contributed to increased market volatility, weakened consumer confidence and diminished expectations for economic growth around the world. Some of these tensions have manifested themselves through actions taken and sanctions imposed by the governments of the United States and the PRC from 2020 onwards. The United States has imposed a range of sanctions and trade restrictions on Chinese persons and companies, focusing on entities the United States believes are involved in human rights violations, information technology and communications equipment and services, and military activities, among others. In response, the PRC has announced a number of sanctions and trade restrictions that target or provide authority to target foreign officials and companies, including those in the United States. Heightened geopolitical tensions between the United States and the PRC continue to cause significant uncertainty in the global macroeconomy. The ongoing trade dispute between the PRC and the United States, the increase in tariffs that the United States plans to impose on Chinese imports and the restrictions, prohibitions and other similar regulatory measures announced by the United States have contributed to increased market volatility, weakened consumer confidence and diminished expectations for economic growth around the world. Furthermore, global economic fluctuations have also had significant impacts on the global economy and on the Bank. First, a rise in global trade protectionism will negatively impact the trade-dependent economies in Asia. Second, the interplay of U.S. fiscal and monetary policies, and aggressive quantitative easing programmes in Japan may lead to more volatile global capital flows, which could in turn impact global growth. Third, in the United Kingdom ("**UK**") a remain-or-leave referendum on its membership within the European Union ("**EU**") was held in June 2016, the result of which favoured the exit of the UK from the EU ("**Brexit**"). On 31 January 2020, the UK officially exited the EU following a UK-EU Withdrawal Agreement signed in October 2019. The UK and the EU signed the Brexit trade deal on 30

December 2020 and the UK completed its separation from the EU with effect from 1 January 2021. While the UK and the EU had reached the trade deal, the effect of Brexit remains uncertain, and Brexit has and may continue to create negative economic impact and increase volatility in the global market. These could include falls in stock exchange indices, a fall in the value of the key trading currencies such as the Euro and/or greater volatility of markets in general due to the increased uncertainty. In addition, the market volatility resulting from these uncertainties may be further complicated by recent events such as the energy crisis in the UK resulting from soaring gas prices in light of the military conflict between Russia and Ukraine, as well as the introduction of the mini-budget (also known as The Growth Plan) by the UK government most recently in October 2022 against a backdrop of a cost-of-living crisis with inflation at high levels. Fourth, the recent military conflict between Russia and Ukraine since late February 2022 has led to disruption, instability and volatility in global markets and industries and could adversely impact macroeconomic conditions, give rise to regional instability. The United States, the UK and other governments and jurisdictions have imposed severe economic sanctions and export controls against Russia and Russian interests, have removed Russia from the SWIFT system, and have threatened additional sanctions and controls. The impact of these measures, potential responses to them by Russia, as well as the impacts on the global financial markets are unknown. Fifth, financial market volatility, movements in exchange rates and interest rates, increased levels of inflation and increased uncertainty may have a broader global economic impact that may in turn have a material adverse effect on the Bank's business, financial condition and results of operations. To the extent uncertainty regarding the economic outlook negatively impacts consumer confidence and consumer credit factors globally, the Bank's business and results of operations could likewise be significantly and adversely affected. The outbreak of the COVID-19 pandemic and its spread worldwide have also caused and are expected to continue to bring uncertainty and volatility in the global markets, and the future effects of the pandemic are uncertain. For more details generally, see "*– The implications and knock-on effects of the COVID-19 pandemic have resulted in challenging economic conditions both globally and in China*" and "*– Any future occurrence of natural disasters or outbreaks of contagious diseases in China may have a material adverse effect on the Bank's business operations, financial condition and results of operations*".

Investors should be aware that there is a recent history of financial crises and boom-bust cycles in multiple markets in both emerging and developed economies which leads to risks for all financial institutions, including the Bank. In addition, the Bank remains subject to the risks posed by the indirect economic effect of the global credit crisis, some of which cannot be anticipated and the vast majority of which are not under its control. The Bank also remains subject to counterparty risk arising from financial institutions that can fail or are otherwise unable to meet their obligations under their contractual commitment to the Bank. If there is another global or regional financial crisis or a downturn in the economic condition of the Bank's primary markets, this would likely have a material adverse effect on the Bank business, financial condition and results of operations.

The Bank faces certain risks relating to its recently implemented operational reform initiatives.

The Bank continues to develop and implement a number of operational reform initiatives in an effort to become more competitive and customer-oriented, including those relating to re-engineering its business process and organisational structure. For example, (i) the Bank has revamped its corporate banking products and services, targeting growth in value-added products and services such as asset management, bancassurance and investment banking business; (ii) it has prioritised the development of retail banking business, through implementing operational reform of branch outlets, streamlining business procedures and increasing investments in the distribution channels and IT system; and (iii) it has focused on product innovations in order to achieve greater customer satisfaction. In addition, the Bank intends to accelerate the integration between industries and the internet and further the development of internet finance.

Although the Bank's operational reform initiatives have contributed to its financial results in recent years, it may face certain risks relating to the implementation of these initiatives and there can be no assurance that the Bank will be able to achieve the results it expects in the future due to a number of factors, including:

- it may not have sufficient experience or expertise to successfully manage and continue implementing these operational reform initiatives;
- it may not have sufficient and effective management systems and information technology systems to support the implementation of these operational reform initiatives according to its contemplated schedule or at all; and
- changes in government policies or banking regulations may adversely affect the schedule for implementing, or the Bank's ability to implement, these operational reform initiatives.

If the Bank does not successfully implement all or any of these reform initiatives or, if implemented, these initiatives do not achieve the intended benefits within schedule or at all, the Bank's business, results of operations and financial condition may be adversely affected.

Moreover, these operational reform initiatives may expose the Bank to additional risks. Accordingly, if it is unable to manage risks associated with its initiatives to transform its business, the Bank's business prospects, financial condition and results of operations could be adversely and materially affected.

The Bank's focus on the growth of its County Area Banking Business and its related initiatives expose it to increased risks that may materially and adversely affect its business.

The County Area Banking Business is an important component of the Bank's business. Its initiatives in the County Areas are designed to further increase the penetration of its products and services into these areas. Historically, the County Area Banking Business has generally presented relatively higher risks and lower returns than the banking business in the Urban Areas. The Bank's significant banking portfolio and initiatives in the County Areas expose it to higher risks, including: (i) risks that its provisions for impairment losses on loans may be higher than anticipated due to the limited financial capacity of its customers in the County Areas or otherwise; (ii) revenues from its County Area Banking Business may be lower than anticipated; (iii) if the actual development of the County Area banking market differs from its anticipation, the Bank may not be able to derive the return as anticipated from its increased allocation of resources to its County Area Banking Business; (iv) natural disasters and global climate changes may adversely affect the business operations and financial condition of certain of its customers who may not be able to service their obligations owed to the Bank; and (v) the Bank's extensive branch network in the vast County Areas may present challenges to its operations. The Bank's growing County Area Banking Business presents an increased challenge to its management skills, risk control capabilities and information technology systems. If any of the Bank's initiatives in respect of the County Area Banking Business do not achieve the results anticipated, its County Area Banking Business, its overall business, results of operations and financial condition may be materially and adversely impacted.

Furthermore, certain governmental policies and guidelines relating to the Bank's County Area Banking Business impose constraints on its operations. For example, on 15 December 2017, the CBIRC issued the Measures for Supervision and Administration of Agricultural Bank of China's County Area Banking Division （農業銀行三農金融事業部監督管理辦法） (the "**County Area Banking Division Measures**"), which replaced and superseded the Guideline to Agricultural Bank of China's County Area Banking Division Reform and Regulations（中國農業銀行三農金融事業部制改革與監管指引） promulgated on 23 April 2009. The County Area Banking Division Measures, has imposed requirements on the Bank's County Area Banking Business, including its organisational structure, operation mechanism and performance review. The Bank's efforts to comply with the requirements of the Guideline may affect its business strategies, as well as its ability to optimise resource allocation and customer selection, which may adversely affect its profitability in the near-and medium-term. In the past, there have been instances where the ratios of the Bank's assets and liabilities in its County Area Banking Business to its total assets and liabilities and its cost-to-income ratio in the County Area Banking Business did not meet the requirements of the Guideline. Although the Bank has not been subject to any regulatory actions for such non-compliance, there can be no certainty that it will not be subject to any regulatory actions in the future for its past non-compliance. In addition, it cannot assure investors that it will be able to meet all regulatory requirements relating to its County Area Banking Business, including the requirements of the Guideline, in the future due to changes to these requirements or otherwise, or that it will not be subject to sanctions as a result. If any of the above circumstances occurs, the reputation, business, results of operations and financial condition of the Bank may be materially and adversely affected.

If the Bank is not effective in implementing enhanced risk management and internal control policies and procedures and introducing certain information technology systems to assist with its risk management and internal control, its business and prospects may be materially and adversely affected.

The Bank has in the past suffered from credit-quality problems, lapses in credit approval and control processes, internal control deficiencies and operational problems as a result of weaknesses in its risk management controls. The Bank has significantly enhanced its risk management and internal control policies and procedures in recent years in an effort to improve its risk management capabilities and enhance its internal control. However, there can be no certainty that the Bank's risk management and internal control policies and procedures will adequately control, or protect it against, all credit and other risks. Some of these risks are yet to be identified by the Bank, and may be unforeseeable or higher than what it originally expected or the historical level. In addition, given the short history of certain aspects of its risk management and internal control policies and procedures, the Bank will require additional time to implement these policies and procedures and fully measure the impact of, and evaluate compliance with, these policies and procedures. Moreover, the Bank's staff will require time to adjust to these policies and procedures and it cannot assure investors that its employees will be able to consistently comply with or correctly apply these policies and procedures.

The Bank's risk management capabilities are limited by the information, tools or technologies available to it. For example, it may not be able to effectively monitor credit risk due to limited information resources or tools. In recent years, the Bank has introduced or refined certain risk management tools and systems to assist it in better managing risks, including the internal credit rating system, the assets and liabilities management system, the internal funds transfer pricing system, the treasury trading and risk management system and the Bank's credit management system. These systems aim at enhancing the Bank's ability to use quantitative measures to manage risks. However, its ability to operate such systems and to monitor and analyse the effectiveness of such systems is still subject to continuous testing. The Bank is also still in the process of further developing information systems to manage certain aspects of risk management, such as automated systems for the collection of certain information relating to connected party transactions and group lending.

If the Bank is not effective in improving its risk management and internal control policies, procedures and systems, or if the intended results of such policies, procedures or systems are not achieved in a timely manner, its asset quality, business, financial condition and results of operations may be materially and adversely affected.

The Bank's expanding range of products, services and business activities exposes it to new risks.

The Bank has been increasing its product development efforts and expanding its range of products and services to meet the needs of its customers and to enhance its competitiveness.

The expansion of its business activities exposes the Bank to a number of risks and challenges, including:

- insufficient experience or expertise in certain new products and services, which may prevent it from effectively competing in these areas;
- imitation or replication of its new products and services by its competitors;

- failure of its new products and services to be accepted by its customers or meet the expected targets;
- inability to hire additional qualified personnel or to hire personnel on commercially reasonable terms;
- insufficient financial, operational, management and other human resources to support its expanded range of products and services;
- inability to obtain regulatory approvals for its new products or services; and
- unsuccessful attempts to enhance its risk management and internal control capabilities and information technology systems to support a broader range of products and services.

If the Bank is not able to successfully expand into or develop new products, services and related business areas due to these risks or to achieve the intended results with respect to such new products and services, its business, financial condition and results of operations may be materially and adversely affected.

The Bank may face difficulties in meeting regulatory requirements relating to capital adequacy.

Under the Capital Rules for Commercial Banks (Provisional), the Bank's minimum common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio are 5 per cent., 6 per cent. and 8 per cent., respectively. As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Bank's consolidated capital adequacy ratios were 16.1 per cent., 16.6 per cent., 17.1 per cent. and 17.1 per cent., respectively. In accordance with the Capital Rules for Commercial Banks (Provisional), the common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 11.1 per cent., 13.3 per cent. and 17.1 per cent., respectively, as at 30 June 2022. Although these capital adequacy ratios were in compliance with the applicable PRC requirements, certain developments could affect the Bank's ability to satisfy applicable capital adequacy requirements in the future.

In recent years, CBIRC has issued several regulations and guidelines governing capital adequacy requirements applicable to commercial banks in the PRC. Currently, CBIRC is actively pushing forward the implementation of Basel III. In April 2011, CBIRC promulgated the Guideline Concerning the Implementation of New Regulatory Standards for the PRC Banking Industry (關於中國銀行業實施新監管標準的指導意見) to clarify the direction for future regulations and the requirement for prudent regulatory requirements. On 7 June 2012, the CBIRC promulgated the Administrative Measures for the Capital of Commercial Banks (Provisional)(商業銀行資本管理辦法(試行)), which came into effect on 1 January 2013, and Article 25 of which has been invalidated by Provisions on the Additional Regulation of Systemically Important Banks (for Trial Implementation) (系統重要性銀行附加監管規定(試行)) issued on 30 September 2021 and effective on 1 December 2021. The Administrative Measures for the Capital of Commercial Banks (Provisional) clarified and refined the categorisations and methods of measurement in respect of the capital instruments of commercial banks. According to the Administrative Measures for the Capital of Commercial Banks (Provisional), the regulatory requirements on the capital adequacy ratio of commercial banks shall cover the requirements on the minimum capital, reserve capital and counter-cyclical capital, additional capital for systemically important banks, as well as second pillar capital, which shall be reached by commercial banks by the end of 2018. In order to smoothly implement the Administrative Measures for the Capital of Commercial Banks (Provisional), on 30 November 2012, the CBIRC promulgated the Notice of Transitional Arrangement for the Implementation of the Administrative Measures for the Capital of Commercial Banks (Provisional)《中國銀監會關於實施<商業銀行資本管理辦法(試行)>過渡期安排相關事項的通知》(the "**Notice of Transitional Arrangement**"), pursuant to which commercial banks shall reach the minimum capital requirement by 1 January 2013. Within the transitional period for reaching required targets, the Administrative Measures for the Capital of Commercial Banks (Provisional) and the Notice of Transitional Arrangement require commercial banks to formulate and implement feasible plans for reaching capital adequacy ratio targets step by step, and submit the same to the CBIRC for approval. Furthermore, the Financial Stability Board identified the Bank as a globally systemically important bank ("**G-SIB**") in 2014. As a G-SIB, the Bank is required to satisfy heightened capital adequacy ratios pursuant to Basel III. Given the requirement of capital adequacy ratio under the Administrative Measures for the Capital of Commercial Banks (Provisional) and the additional requirements due to its G-SIB status, the Bank's capital adequacy may be substantially affected. In addition, on 2 December 2020, PBOC and CBIRC released the Assessment Measures for Systematically Important Banks（系統重要性銀行評估辦法）(the "**D-SIB Assessment Measures**"). According to the D-SIB Assessment Measures, domestic banks with asset balance ranked within top 30 in China will be assessed to determine whether they are to be designated as domestic systemically important banks ("**D-SIB**"). On 9 September 2022, PBOC published the latest list of D-SIBs (the "**D-SIB List**"), which comprised six state-owned banks, nine joint stock commercial banks and four city commercial banks. The Bank was designated in Group Four of the D-SIB List and is required to strengthen its risk prevention and absorption capacity, such as those proposed under the Ancillary Regulatory Provision for Systematically Important Banks (Trial)（系統重要性銀行附加監管規定(試行)）and the Administrative Measures on Total Loss-Absorbing Capacity of Global Systemically Important Banks（全球系統重要性銀行總損失吸收能力管理辦法）, both of which came into force from 1 December 2021.

Although the Bank is currently in compliance with the requirement for capital adequacy, new requirements and regulations may adversely affect the Bank's compliance with capital adequacy ratios, and it is possible that the Bank may face difficulties in meeting the requirement of the regulations regarding capital adequacy and that new requirements and regulations will also affect the Bank's funding needs.

In addition, some regulatory developments may affect the Bank's ability to continually comply with capital adequacy requirements, including the raising of minimum capital adequacy ratios by CBIRC and the changes in calculations of capital adequacy ratios by CBIRC. If any of these circumstances occurs, the Bank may be unable to comply with the regulatory requirements of CBIRC.

There can be no assurance that the Bank will be able to meet these requirements in the future at all times and any failure to meet these requirements may have a material and adverse effect on the Bank's business, financial condition and results of operations.

In order to support its steady growth and development, the Bank may need to raise more capital to ensure that its capital complies with or exceeds the minimum regulatory requirement. In its future plans to raise capital, the Bank may sell any share securities that can contribute towards core capital or any debt securities that can contribute towards supplementary capital. The Bank's capital-raising ability may be restricted by the Bank's future business, financial condition and results of operations, the Bank's credit rating, necessary regulatory approvals and overall market conditions, including Chinese and global economic, political and other conditions at the time of capital-raising.

The Bank may not be able to detect and prevent fraud or other misconduct committed by its employees or third parties.

Fraud and other misconduct by employees or third parties may be difficult to detect and prevent and could subject the Bank to financial losses and sanctions imposed by governmental authorities as well as seriously harm its reputation. Types of misconduct by the Bank's employees in the past have included, among other things, improper extension of credit, unauthorised business transactions, business practices that are in breach of the Bank's internal policies and procedures, inappropriate accounting treatment, theft, embezzlement or misappropriation of customer funds, fraud, and bribery.

Types of possible misconduct by third parties against the Bank may include, among other things, fraud, theft and robbery. Types and incidents of fraud and other misconduct by employees or third parties against the Bank may go beyond those detected in the past. In addition, the Bank's employees may commit errors or take improper actions that could subject the Bank to financial claims as well as regulatory actions. As at 30 June 2022, the Bank had 22,804 domestic branch outlets, with a total of 450,299 employees. There can be no certainty that all of the employees of the Bank will comply with its risk management and internal control policies and procedures.

Although the Bank has continuously sought to enhance management and supervision of its branches and/or branches' officers (including putting in place policies on employee conduct), as the branches have certain levels of autonomy in their operations and management within the scope of authorisation, the Bank cannot assure that it can always timely detect or prevent operational or management problems within its branches and/or such branches' officers. There can be no certainty that fraud or other misconduct, whether involving past acts that have gone undetected or future acts, will not have a material adverse effect on the reputation, results of operations and business prospects of the Bank, or that all of the employees of the Bank will comply with its risk management and internal control policies and procedures.

The Bank may be subject to penalties and other adverse consequences should it be determined that transactions in which it participates violate U.S. or other sanctions.

U.S. law generally prohibits U.S. persons from directly or indirectly investing or otherwise doing business in or with certain countries (such as the Crimea region, Burma/Myanmar, Cuba, Iran, North Korea, Sudan and Syria and others) and with certain persons or businesses that have been specially designated by the OFAC or other U.S. government agencies. Other governments and international or regional organisations also administer similar economic sanctions.

While the Bank does not believe that it is in violation of any applicable sanctions and the proceeds of the issue of the Notes is not intended to be used in violation of sanctions, if it were determined that transactions in which it participates violate U.S. or other sanctions, it could be subject to U.S. or other penalties, and its reputation and future business prospects in the United States or with U.S. persons, or in other jurisdictions, could be adversely affected.

If the Bank fails to maintain the growth rate of its customer deposits or if there is a significant decrease in customer deposits, its business operations and liquidity may be materially and adversely affected.

Customer deposits are the Bank's primary source of funding. From 31 December 2019 to 30 June 2022, the Bank's balance of deposits grew from CNY18,849.2 billion to CNY24,120.0 billion, and its domestic retail deposits grew from CNY10,612.0 billion to CNY14,190.0 billion respectively. However, many factors affect the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of investment alternatives and retail customers' changing perceptions toward savings. For example, with the continuing development of China's capital markets, customers of the Bank may reduce their deposits and increase their investment in securities for a higher return.

If the Bank fails to maintain the growth rate in its deposits or if a substantial portion of its depositors withdraw their deposits or do not roll over their time deposits upon maturity, the Bank's liquidity position, financial condition and results of operations may be materially and adversely affected. In such event, the Bank may need to seek more expensive sources of funding and there can be no assurance that it will be able to obtain additional funding on commercially reasonable terms as and when required. The Bank's ability to raise additional funds may be impaired by factors over which it has little or no control, such as deteriorating market conditions, severe disruptions in the financial markets, or negative outlooks for the industries to which it has significant credit exposure.

The business of the Bank is highly dependent on the proper functioning and improvement of its information technology systems.

The Bank depends on its information technology systems to process transactions on an accurate and timely basis, and to store and process its business and operating data. The proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centres, is critical to its business and ability to compete effectively. The Bank's disaster recovery testing centre in Beijing provides backup for its shanghai data centre and could be used in the event of a catastrophe or a failure of its core production system. The Bank is in the process of establishing a backup data centre in Beijing, which is designed to further enhance its backup and disaster recovery capabilities. It has also established alternative communication networks where available. However, its business activities would be materially disrupted if there is a partial or complete failure of any of the information technology systems or communication networks. Such failure can be caused by a variety of factors, including natural disasters, extended power outages, breakdown of key hardware systems and computer viruses. The proper functioning of the information technology systems of the Bank also depends on accurate and reliable data input and other sub-system installation, which are subject to human errors. Any failure or delay in recording or processing its transaction data could subject it to claims for losses and regulatory fines and penalties.

In particular, the secure transmission of confidential information is critical to the Bank's operations. Its networks and systems may be vulnerable to unauthorised access and other security problems. There can be no assurance that its existing security measures will prevent unforeseeable security breaches, including break-ins and viruses, or other disruptions such as those caused by defects in hardware or software and errors or misconduct of operators. Persons that circumvent the Bank's security measures could use the Bank's or its clients' confidential information wrongfully. Any material security breach or other disruption could expose the Bank to risk of loss and regulatory actions and harm its reputation.

The competitiveness of the Bank will to some extent depend on its ability to upgrade its information technology systems on a timely and cost-effective basis. In addition, the information available to and received by it through the existing information technology systems may not be timely or sufficient for the Bank to manage risks and prepare for, and respond to, market changes and other developments in the current operating environment. Any substantial failure to improve or upgrade the information technology systems effectively or on a timely basis could materially and adversely affect the competitiveness, results of operations and financial condition of the Bank.

The Bank is subject to credit risk with respect to certain off-balance sheet commitments.

In the normal course of its business, the Bank makes commitments which, under applicable accounting principles, are not reflected as liabilities on the balance sheet, including bank acceptances, loan commitments, guarantees and letters of credit to guarantee the performance of the customers. The Bank is subject to credit risk on its off-balance sheet commitments because these commitments may need to be fulfilled by it in certain circumstances. If the Bank is unable to recover payment from its customers in respect of the commitments that it is called upon to fulfil, the financial condition and results of operations of the Bank could be adversely affected.

The Bank does not possess the relevant land use right certificates or building ownership certificates for some of its properties, and it may be required to seek alternative premises for some of the offices or business sites due to its landlords' lack of relevant title certificates.

The Bank currently holds certain properties for which it does not have the relevant land use right certificates or building ownership certificates. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that it has not yet obtained and it plans to cooperate closely with the local land and property management authorities to expedite such applications. The Bank has taken steps to rectify certain title defects. However, it may not be able to obtain certificates for all of these properties due to title defects or for other reasons. There can be no assurance that the ownership rights of the Bank would not be adversely affected in respect of properties for which it is unable to obtain the relevant title certificates. If the Bank were forced to relocate any of the operations it conducts on the affected properties, it may incur additional costs as a result of such relocation.

In addition, the Bank leases certain properties from lessors who were not able to provide the title certificates or documents evidencing the authorisation or consent of the owners of such properties. As a result, such leases may be invalid. In addition, there can be no assurance that the Bank would be able to renew its leases on terms acceptable to the Bank upon their expiration. If any of the Bank's leases are terminated as a result of challenges by third parties or if the Bank fails to renew them upon expiration, it may be forced to relocate affected branches and sub-branches and incur additional costs associated therewith, and the business, financial condition and results of operations of the Bank may be adversely affected.

The Bank is subject to various PRC and overseas regulatory requirements, and its failure to fully comply with such requirements, if any, could materially and adversely affect its business, reputation, financial condition and results of operations.

The Bank is subject to the regulatory requirements and guidelines set forth by the PRC regulatory authorities. Its overseas branches, subsidiaries and representative offices are subject to local laws and regulations as well as to local regulatory authorities.

The PRC regulatory authorities include the MOF, PBOC, CBIRC, CSRC, CIRC, SAT, NAO, SAIC and SAFE. These regulatory authorities carry out periodic supervision and spot checks of the Bank's compliance with laws, regulations and guidelines.

The Bank is subject to various PRC and overseas regulatory requirements, and the PRC and overseas regulatory authorities conduct periodic inspections, examinations and inquiries in respect of its compliance with such requirements. On occasion it has failed to meet certain requirements and guidelines set by the PRC regulatory authorities, or it was found to have violated certain regulations. In addition, the Bank has in the past been subject to fines and other penalties for cases of its non-compliance. There can be no assurance that it will be able to meet all the applicable regulatory requirements and guidelines, or comply with all the applicable regulations at all times, or that it will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. If sanctions, fines and other penalties are imposed on the Bank for failing to comply with applicable requirements, guidelines or regulations, the business, reputation, financial condition and results of operations of the Bank may be materially and adversely affected.

The Bank may not be able to detect money-laundering and other illegal or improper activities fully or on a timely basis, which could expose it to additional liability and harm its business or reputation.

The Bank is required to comply with applicable anti-money-laundering and anti-terrorism laws and other regulations in the PRC, Hong Kong, Singapore, the US and other jurisdictions where it has operations. These laws and regulations require it, among other things, to adopt and enforce "know-your-customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities in different jurisdictions. The Bank has in the past been subject to administrative fines and penalties imposed by regulatory agencies in the PRC for, among other things, incidents of non-compliance with the PRC anti-money-laundering rules, including, for example, failure to report large or suspicious transactions. In addition, following a cease and desist order issued in September 2016 where the Bank and the Bank's New York branch were ordered to submit written plans to improve its internal control and compliance functions, in November 2016, the Bank's New York branch agreed to pay a U.S.$215 million penalty in connection with violations of anti-money laundering laws and other relevant regulatory requirements in a consent order entered into by the Bank and its New York branch with the New York state regulator. Pursuant to the consent order, the Bank is required to take immediate steps to correct violations, including engaging an independent monitor reporting directly to the state regulator to implement effective anti-money laundering controls. While it has adopted policies and procedures aimed at detecting and preventing the use of its banking networks for money-laundering activities and by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where it may be used by other parties to engage in money-laundering and other illegal or improper activities due to, in part, the short history of these policies and procedures. To the extent it may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom the Bank reports have the power and authority to impose fines and other penalties on the Bank. In addition, the business and reputation of the Bank could suffer if customers use it for money-laundering or illegal or improper purposes.

The implications and knock-on effects of the COVID-19 pandemic have resulted in challenging economic conditions both globally and in China.

On 12 March 2020, the World Health Organisation declared COVID-19 as a global pandemic. The COVID-19 pandemic has resulted in many countries, including China, India, Japan, the United States, members of the EU and the UK, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic. Widespread reductions in consumption, industrial production and business activities resulting from the COVID-19 pandemic has significantly disrupted the global economy and global markets and are likely to result in a global economic recession. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities and this volatility may persist for some time. In early 2021, vaccination programmes have been rolled out in various countries, including the United States, China, the EU and UK. However, the effect of the vaccination programmes on the COVID-19 pandemic remains uncertain, and many countries, including India, have experienced another wave of the COVID-19 pandemic. As the COVID-19 pandemic, and in some cases new variants of COVID-19 which could be more contagious, continues to adversely affect business activities globally, governments and central banks across the world have introduced or are planning fiscal and monetary stimulus measures including direct subsidies, tax cuts, interest rates cuts, quantitative easing programmes and suspension or relaxation of prudential bank capital requirements. These measures aim to contain the economic impact of the COVID-19 pandemic, stabilise the capital markets and provide liquidity easing to the markets. In addition, the PRC regulators have promulgated a series of measures to encourage PRC financial institutions to increase financial support to business and consumers to combat the challenges arising from the COVID-19 pandemic. Coupled with the impact of global COVID-19 pandemic, China was faced with a decline in domestic consumption, investment, imports and exports in 2020 and 2021, as well as unemployment pressures. To control the spread of COVID-19 pandemic, governments around the globe have implemented significant monetary and fiscal easing policies. Such government support has helped global markets and major asset classes to rebound, but uncertainty remains. More recently, China has relaxed many restrictions including quarantine rules for travellers following its earlier zero-COVID policy. As a result, China is experiencing a spike in COVID infections. Generally, there can be no assurance that the COVID-19 infection rate would be controlled or that infections would not spike in the future, which might in turn result in challenging global economic conditions that may have a material and adverse impact on the Bank's business, financial condition or results of operations.

The uncertainties in China's economy and financial markets could materially and adversely affect the financial condition and results of operations of the Bank.

After the peak of the global financial crisis, China started to withdraw its economic stimulus plan implemented during the financial crisis and returned to its normal policy direction. The PRC government imposed stricter control measures on the real estate market, regulated local government financing vehicles, cancelled export tax refund policies for certain commodities and restarted the reform of Renminbi exchange rate. The outbreak of COVID-19 and its spread worldwide are expected to introduce more uncertainties and volatility in global markets, as it remains unknown when the ongoing situation will improve and whether any effective containment of the spread of the coronavirus can be achieved. The uncertainties in China's economy may adversely affect the Bank's financial condition and results of operations in many ways, including, among other things:

- during a period of economic slowdown, there is a greater likelihood that more of the Bank's customers or counterparties could become delinquent in respect of their loan repayments or other obligations to the Bank, which, in turn, could result in a higher level of non-performing loans, allowance for impairment losses and write-offs, all of which would adversely affect its results of operations and financial condition;

- the increased regulation and supervision of the financial services industry in response to the financial crisis in certain jurisdictions where the Bank operates may restrict its business flexibility and increase compliance costs, which may adversely affect its business operations;

- the value of the Bank's investments in the debt securities issued by overseas governments and financial institutions may significantly decline, which may adversely affect its financial condition;

- the Bank's ability to raise additional capital on favourable terms, or at all, could be adversely affected; and

- trade and capital flows may further contract as a result of protectionist measures being introduced in certain markets, which could cause a further slowdown in economies and adversely affect the Bank's business prospects.

There can be no assurance that China's economy or the global economy will maintain sustainable growth. If another economic downturn occurs, the business, results of operations and financial condition of the Bank could be materially and adversely affected.

The Bank may be involved in legal and other disputes from time to time arising out of its operations and may face potential liabilities as a result.

The Bank is often involved in legal and other disputes for a variety of reasons, which generally arise because it seeks to recover outstanding amounts from borrowers or because customers or other claimants bring actions against it. The majority of these cases arise in the ordinary course of the Bank's business. Where the Bank assesses that there is a probable risk of loss, it is the Bank's policy to make provisions for the loss. The Bank has made provisions with respect to pending legal proceedings and other disputes against it.

However, there can be no assurance that the judgments in any of the litigation in which the Bank is involved would be favourable to it or that the Bank's litigation provisions are adequate to cover the losses arising from legal proceedings or other disputes. In addition, if the Bank's assessment of the risk changes, its view on provisions will also change. It is expected that the Bank will continue to be involved in various legal and other disputes in the future, which may subject it to additional risks and losses. These disputes may relate to, among others, the amount of the unpaid obligations of the relevant borrowers, the terms for such borrowers to perform their obligations and the application of statute of limitations. In addition, the Bank may have to advance legal costs associated with such disputes, including fees relating to appraisal, notarisation, auction, execution and legal counsel's services. These and other disputes may lead to legal, administrative or other proceedings and may result in damage to the reputation of the Bank, additional operational costs and a diversion of resources and management's attention from its core business operations. There can be no assurance that the outcome of future or current disputes or proceedings will not materially and adversely affect the business, reputation, financial condition and results of operations of the Bank.

The Bank is subject to counterparty risks in its derivative transactions.

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and it currently has foreign currency forward and swap arrangements and interest rate swap arrangements with a number of domestic and international banks, other financial institutions and other entities. While the Bank believes that the overall credit quality of its counterparties is satisfactory, there can be no assurance that the Bank's counterparties with significant exposures will not face difficulty in paying the amounts on derivative contracts when due, which may result in financial losses to the Bank.

The Bank's majority shareholders have the ability to exercise significant influence over it.

As at 30 June 2022, the Bank's majority shareholders, the MOF and Huijin, own approximately 38.1 per cent. and 40.0 per cent., respectively, of its total issued shares as beneficial owners. In accordance with the Articles of Association and applicable laws and regulations, the MOF and Huijin together will have the ability to exercise a controlling influence over the business of the Bank, including matters relating to:

- the timing and amount of the distribution of dividends;
- the issuance of new securities;
- the election of the Bank's directors and supervisors;
- the Bank's business strategies and policies;
- any plans relating to mergers, acquisitions, joint ventures, investments or divestitures; and
- amendments to the Articles of Association.

The interests of the MOF and Huijin may conflict with the interests of the Bank. In addition, since the MOF is a ministry of the State Council and Huijin is a wholly state-owned limited liability company formed under the PRC law, they have strong interests in the successful implementation of the economic or fiscal policies enacted by the PRC government, which policies may not be in the best interest of the Bank.

The Bank has expanded its business in jurisdictions other than the PRC, which has increased the complexity of the risks that it faces.

In recent years, the Bank has taken actions to expand its operations outside mainland China. As at 30 June 2022, it had 13 overseas branches in Hong Kong, Singapore, Seoul, New York, Dubai International Financial Center, Tokyo, Frankfurt, Sydney, Luxembourg, Dubai, London, Macao and Hanoi, as well as four representative offices in Vancouver, Chinese Taipei, Sao Paulo and Dushanbe.

The expansion into multiple jurisdictions outside of China exposes the Bank to a new variety of regulatory and business challenges and risks and has increased the complexity of risks in a number of areas, including currency risk, interest rate risk, regulatory and compliance risk, reputational risk and operational risk. Adverse market conditions in these overseas jurisdictions may result in mark-to-market and realised losses on the investment assets held by the overseas branches and increase their cost of funding. Furthermore, despite the Bank's best efforts to comply with all applicable regulations in all the jurisdictions in which it operates, there may be incidences of failure to comply with the regulations in certain jurisdictions. Overseas regulators may bring administrative or judicial proceedings against the Bank or its employees, representatives, agents and third party service providers, which could result, among other things, in suspension or revocation of one or more of its licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions. In addition, the regulatory changes in various jurisdictions, including those in which it has or plans to have operations could have an adverse impact on the Bank's growth, capital adequacy and profitability. If the Bank is unable to manage the risks resulting from its expansion outside mainland China, its business, reputation, financial condition and results of operations may be adversely affected.

Risks relating to the banking industry in China

The Bank faces intense competition in China's banking industry as well as competition from alternative corporate financing and investment channels.

The Bank is facing competition from other commercial banks and financial institutions in both the Urban Areas and the County Areas. It competes primarily with other Large Commercial Banks, National Joint Stock Commercial Banks, city commercial banks and foreign banks in China.

Certain of these banks may have more established presence in certain areas and more financial, management and technology resources than the Bank does. In the County Areas, the Bank competes primarily with other Large Commercial Banks, rural credit cooperatives and the Postal Savings Bank of China. Some of these banks may have more simplified management structures and procedures in certain regions and areas. In recent years, the PRC government has gradually lowered the threshold for financial institutions to conduct business in the County Areas and strengthened the relevant financial and tax support, which, while the Bank believes will promote the development of the County Area financial market, will further intensify the competition among financial institutions in the County Areas.

Additionally, following the removal of regulatory restrictions on their geographical presence, customer base and operating license in China in December 2006 as part of China's WTO accession commitments, the Bank has experienced increased competition from foreign-invested commercial banks. Recently, a number of well-known foreign banks have expanded their presence in the County Areas. Furthermore, the Mainland and Hong Kong Closer Economic Partnership Arrangement the Mainland and Macau Closer Economic Partnership Arrangement and the Cross-Straits Economic Co-operation Framework Agreement which permit Hong Kong, Macau and Taiwan banks to operate in China, have also increased competition in China's banking industry.

Moreover, the PRC government has, in recent years, implemented a series of measures designed to further liberalise the banking industry, including, among others, with respect to interest rates and non-interest-based products and services, which are changing the basis on which the Bank competes with other banks for customers.

The Bank competes with many of its competitors for substantially the same loan, deposit and fee-based business customers. Such competition may adversely affect the Bank's business and future prospects by, for example:

- reducing its market share in its principal products and services;
- slowing down the growth of its loan or deposit portfolios and other products and services;
- decreasing its interest income or increasing its interest expenses, thereby reducing its net interest income;
- reducing its fee and commission income;
- increasing its non-interest expenses, such as marketing expenses;
- adversely affecting its asset quality; and
- increasing competition for senior management and qualified professional personnel.

The Bank may also face competition from direct corporate financing, such as the issuance of securities in the domestic and international capital markets. The domestic securities markets have experienced, and are expected to continue to experience, expansion and growth. If a substantial number of its customers choose alternative financing to fund their capital needs, the Bank's interest income, financial condition and results of operations may be adversely affected.

Moreover, the Bank may face competition from other forms of investment alternatives as the PRC capital markets continue to develop. As the PRC equity and bond markets continue to develop and become more viable and attractive investment alternatives, the Bank's deposit customers may elect to transfer their funds into equity and bond investments, which may reduce its deposit base and adversely affect its business, financial condition and results of operations.

The Bank's business and operations are highly regulated, and its business, financial condition, results of operations and future prospects may be materially and adversely affected by regulatory changes or other governmental policies, including their interpretation and application.

The Bank's business and operations are directly affected by changes in China's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which it can engage in specific businesses, as well as changes in other governmental policies. Since its establishment as the primary banking industry regulator assuming the majority of the bank regulatory functions from the PBOC in 2003, the CBIRC has promulgated a series of banking regulations and guidelines. The banking regulatory regime in China is currently undergoing significant changes, most of which are applicable to the Bank and may result in additional costs or restrictions on its activities. For instance, in March 2011, the CBIRC, the PBOC and the NDRC jointly issued a notice stipulating the cancellation of 34 service fees classified under 11 categories of domestic commercial banks effective from 1 July 2011. In February 2014, the NDRC and the CBIRC jointly issued Measures for the Administration of the Service Prices of Commercial Banks (the "**Measure**"). According to the Measure, the prices of basic banking services that are widely used by clients and have significant influence on China's economic development shall be subject to the guidance or determination of the government. The NDRC and the CBIRC also jointly issued a circular on Printing and Distributing the Catalogue of Government-guided and Government-determined Prices for Services Provided by Commercial Banks (the "**Catalogue**"). In July 2017, the NDRC and the CBIRC jointly issued a notice on Canceling and Suspending the Charges for Some Basic Financial Services Provided by Commercial Banks, which took effect on 1 August 2017.

According to the Catalogue, the prices of the basic financial services provided by commercial banks for bank clients shall be subject to the government guided-prices and government pricing. Such basic financial services include part of commercial banks' service items, such as wire transfer, remittance by cash, encashment and bills, and specific charge items and charging standards shall be subject to the Catalogue. There can be no assurance that the policies, laws and regulations governing the banking industry will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial condition and results of operations nor can the Bank assure investors that it will be able to adapt to all such changes on a timely basis. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations. Failure to comply with the applicable policies, laws and regulations may result in fines and restrictions on the Bank's activities, which could also have a significant impact on its business, financial condition and results of operations.

On 11 January 2017, the PBOC issued the Circular of the People's Bank of China on the Macro-prudence Management of Cross-border Financing in Full Aperture (中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知) (the "**2017 PBOC Circular**"), which came into effect on 11 January 2017. The 2017 PBOC Circular established a mechanism aimed at regulating cross border financing activities conducted by domestic institutions, including domestic enterprises and financial institutions other than the governmental financing platforms and real estate enterprises, based on the capital or net assets of the borrowing entities. Pursuant to the 2017 PBOC Circular, the issuance of any notes is required to be filed with SAFE. However, neither PBOC nor SAFE has promulgated implementation rules of the 2017 PBOC Circular as at the date of this Offering Circular. The filing process for the aforesaid regulations and the interpretation and enforcement of the 2017 PBOC Circular thus involve substantial uncertainties due to its recent promulgation and publication.

The PRC regulators have implemented measures relating to lending to small and medium-sized enterprises ("SMEs") and the Group may be affected by future regulatory changes

CBIRC has promulgated a series of measures to encourage banking institutions to implement the PRC Government's macroeconomic policies, and, in particular, to proactively support continued healthy economic growth by increasing lending activities to SMEs while effectively controlling risk. However, SMEs are more vulnerable to fluctuation in the macro-economy as compared to large enterprises due to relatively limited capital, management or other resources required to cope with the adverse impact of major economic or regulatory changes. In addition, SMEs may not be able to provide reliable information necessary for the Bank to assess the credit risks involved. In the absence of accurate assessment of the relevant credit risks, the non-performing loans of the Bank may be significantly increased if its small and medium-sized enterprise clients are affected by economic or regulatory changes, which could materially and adversely affect the Group's business, results of operations and financial condition.

In addition, there can be no assurance that the policies, laws and regulations governing the PRC banking industry, in particular, those relating to lending to SMEs (e.g. incentive policies to encourage lending to SMEs), will not change in the future or that any such changes will not materially and adversely affect the Group's business, financial condition and results of operations.

The Bank is subject to changes in interest rates and other market risks, and the Bank's ability to hedge market risks is limited.

As with most commercial banks, the Bank's results of operations depend to a great extent on its net interest income. For the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022, the Bank's net interest income represented 79.6 per cent., 82.7 per cent., 80.1 per cent. and 77.4 per cent., respectively, of its operating income. Interest rates in China historically were highly regulated but have been gradually liberalised in recent years. The PBOC promulgated the Notice of Lowering the RMB Benchmark Lending and Deposit Rates for Financial Institution and Further Promoting the Interest Rate Liberation Reform on 23 October 2015, which removed the upper limits on the deposit interest rates for the commercial bank. There used to be restriction with respect to the lower limit of the interest rates for CNY-denominated deposits. However, PBOC promulgated the Notice on Further Promoting the Market-oriented Reform of Interest Rates on 19 July 2013, eliminating such restriction on CNY-denominated loans, except for residential mortgage loans. The PBOC may further liberalise the existing interest rate restrictions on CNY-denominated loans and deposits. If the existing regulations were substantially liberalised or eliminated, competition in China's banking industry would likely intensify as China's commercial banks seek to offer more attractive rates to customers. Further liberalisation by the PBOC would result in the narrowing of the spread in the average interest rates between CNY-denominated loans and CNY-denominated deposits, thereby materially and adversely affecting the Bank's results of operations. Furthermore, the Bank cannot assure investors that it will be able to adjust the composition of its asset and liability portfolios and its pricing mechanism to enable it to effectively respond to the further liberalisation of interest rates.

In recent years, the PBOC has adjusted the benchmark rates several times. Any adjustments by the PBOC in the benchmark interest rates on loans or deposits or changes in market interest rates may adversely affect the Bank's financial condition and results of operations in different ways.

For example, changes in the PBOC benchmark interest rates could affect the average yield on the Bank's interest-earning assets differently from the average cost on its interest-bearing liabilities and therefore may narrow its net interest margin and reduce its net interest income, which may materially and adversely affect its results of operations and financial condition. In addition, an increase in interest rates may result in increases in the finance costs of the Bank's customers and thus reduce overall demand for loans, and, accordingly, adversely affect the growth of the Bank's loan portfolio, as well as increase the risk of customer default. As a result, changes in interest rates may adversely affect the Bank's net interest income, financial condition and results of operations.

The Bank also undertakes trading and investment activities involving certain financial instruments both in China and abroad. The Bank's income from these activities is subject to volatilities caused by, among other things, changes in interest rates and foreign currency exchange rates. For example, increases in interest rates generally have an adverse effect on the value of the Bank's fixed rate securities portfolio, which may materially and adversely affect its results of operations and financial condition. Furthermore, as the derivatives market has yet to mature in China, there are limited risk management tools available to enable the Bank to reduce market risks.

The growth rate of China's banking industry may not be sustainable.

The Bank expects the banking industry in China to continue to grow as a result of anticipated growth in China's economy, increases in household income, further social welfare reforms, demographic changes and the opening of China's banking industry to foreign participants. However, it is not clear how certain trends and events, such as the pace of China's economic growth, China's implementation of its commitment to WTO accession, the development of the domestic capital and insurance markets and the ongoing reform of the social welfare system will affect China's banking industry. In addition, there can be no assurance that the banking industry in China is free from systemic risks. Consequently, there can be no assurance that the growth and development of China's banking industry will be sustainable.

The effectiveness of the Bank's credit risk management is affected by the quality and scope of information available in China.

The information infrastructure in China is relatively undeveloped. PRC national individual and corporate credit information databases developed by the PBOC commenced operation in 2006.

However, due to their short operational history, they can only provide limited information. Therefore, the Bank's assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. Until these nationwide credit information databases become more fully developed, the Bank has to rely on other publicly available resources and its internal resources, which are not as extensive nor as effective as a unified nationwide credit information system. As a result, the Bank's ability to effectively manage its credit risk and in turn, its asset quality, financial condition and results of operations may be materially and adversely affected.

The Bank cannot assure investors of the accuracy or comparability of facts, forecasts and statistics contained in this Offering Circular with respect to China, its national or County Area economies or its banking industry.

Facts, forecasts and statistics in this Offering Circular relating to China, its national or County Area economies and financial conditions and its banking industry, including the Bank's market share information, are derived from various sources which are generally believed to be reliable.

However, the Bank cannot guarantee the quality and reliability of such sources. In addition, these facts, forecasts and statistics have not been independently verified by the Bank and may not be consistent with the information available from other sources, and may not be complete or up to date. The Bank has taken reasonable caution in reproducing or extracting the information from such sources. However, because of potentially flawed methodologies, discrepancies in market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or to facts, forecasts or statistics of other economies.

Risks relating to China

China's economic, political and social conditions, as well as government policies, could affect the Bank's business, financial condition and results of operations.

A substantial majority of the Bank's businesses, assets and operations are located in China. Accordingly, the Bank's financial condition, results of operations and business prospects are, to a significant degree, subject to the economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including, among other things, government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

China's economy was previously a planned economy, and a substantial portion of productive assets in China is still owned by the PRC government. The government also exercises significant control over China's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. Although the government has implemented economic reform measures to introduce market forces and establish sound corporate governance in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, the Bank may not benefit from certain of such measures. The PRC government has the power to implement macroeconomic control measures affecting China's economy. The government has implemented various measures in an effort to increase or control the growth rate and adjust the structure of certain industries. For example, in response to a decreased growth rate in part as a result of the global financial crisis and economic slowdown, beginning in September 2008, the PRC government began to implement a series of macroeconomic measures and the moderately loose monetary policy, which included announcing an economic stimulus package and reducing benchmark interest rates. Since 2010, the PRC government has begun to implement a number of macroeconomic measures and moderately tight monetary policies to curb inflation in China. The PRC government may continue to implement such policies to control inflation, which may in turn affect the Bank's ability to make loans to its customers. As a result, the Bank's financial condition, results of operations and prospects may be materially and adversely affected.

Certain of the PRC government's macroeconomic measures may materially and adversely affect the Bank's financial condition, results of operations and asset quality. For example, the decreases in the PBOC benchmark interest rates in the second half of 2008 have resulted in the narrowing of the Bank's net interest margin and a decrease in its net interest income in 2009 compared to 2008, which adversely affected its profitability. In addition, the PRC government has imposed macroeconomic control measures aimed at tempering the real estate market. In November 2009, the PRC government shortened the period in which the real estate developers make payments for the land premiums and increased the relevant down payment requirement on the real estate developers. In April 2010, the PRC government raised the down payment requirements for people buying their second homes to a minimum of 50 per cent, of the property value from 40 per cent. and this threshold was further raised to 60 per cent. in January 2011. Down payment requirements on first homes of more than 90 square meters rose to a minimum of 30 per cent. of the property value from 20 per cent.. In addition, the lowest interest rate that commercial banks are permitted to charge in respect of second-home residential mortgage loans has increased from 90 per cent. to 110 per cent. of the applicable PBOC benchmark rate. In early 2011, individual housing property tax was introduced in shanghai and Chongqing on a trial basis. The PRC government's measures to cool down the housing market may adversely affect the growth and quality of the Bank's loans related to real estate and could also have a significant impact on its business, financial condition and results of operations. Furthermore, on 13 March 2014, the State Council promulgated the Guiding Opinions on Resolving Serious Production Overcapacity Conflicts, which prohibits to provide any form of new credit support for newly increased production capacity projects in the industries with severe overcapacity without approval or recordation by the competent investment and industry departments. These requirements may adversely affect the condition of certain of the Bank's loans to the relevant industries.

China has been one of the world's fastest growing economies, as measured by GDP growth, in recent years. However, China may not be able to sustain such a growth rate. During the recent global financial crisis and economic slowdown, the growth of the PRC's GDP slowed down. If China's economy experiences a decrease in growth rate or a significant downturn, the unfavourable business environment and economic condition for the Bank's customers could negatively impact their ability or willingness to repay the Bank's loans and reduce their demand for the Bank's banking services. The Bank's financial condition, results of operations and business prospects may be materially and adversely affected.

The bankruptcy laws of the PRC may differ from those of other jurisdictions with which the holders of the Notes are familiar.

The Bank is incorporated under the laws of the PRC. Any bankruptcy proceeding relating to the Bank would likely involve PRC bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Notes are familiar.

The PRC legal system could limit the legal protection available to investors.

The Bank is organised under the laws of the PRC. The PRC legal system is based on written statutes. The PRC government has promulgated laws and regulations dealing with economic matters as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade. However, many of these laws and regulations continue to evolve, may be subject to different interpretation and may be inconsistently enforced. In addition, there is only a limited volume of published court decisions which may be cited for reference, but such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation of PRC laws and regulations can affect the legal remedies and protection that are available to investors and can adversely affect the value of an investment.

For example, according to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities issued outside the PRC with the NDRC prior to the issue of the securities and notify the particulars of the relevant issue within 10 working days after the completion of the issue of the securities. The NDRC Circular is silent on the legal consequences of noncompliance with the pre-issue registration requirement. In the worst-case scenario, if pre-issue registration is required but not complied with, it might become unlawful for the Issuer to perform or comply with any of its obligations under the Notes and the Notes might be subject to the enforcement as provided in Condition 10 (Events of Default) of the Conditions. Potential investors of the Notes are advised to exercise due caution when making their investment decisions. Similarly, there is no clarity on the legal consequences of non-compliance with the post-issue notification requirement under the NDRC Circular.

Pursuant to the Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC, which came into effect on 14 September 2015, the NDRC will grant annual foreign debt quota to certain pilot enterprises. Within the annual quota, such pilot enterprises may issue foreign debt by themselves or by and through their controlled overseas subsidiaries or branches. Pilot enterprises shall notify certain information of the bonds to the NDRC after the completion of the bond issue. The Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises will be invalidated by the Administrative Measures for the Examination and Registration of Medium and Long-term Foreign Debts of Enterprises (企業中長期外債審核登記管理辦法) issued by the NDRC on 5 January 2023, which will come into effect on 10 February 2023.

Under the 2017 PBOC Circular, financial institutions are required to file relevant operating rules and internal control policies and the details of the calculation of their outstanding foreign debt and foreign debt limit with PBOC or SAFE before making their first cross-border financing transaction and they are required to report to PBOC or SAFE of the amount of their capital fund and the financing agreement when a financing agreement is signed and before the drawdown of the loan or issue of debt securities, report their cross-border income after such drawdown, and report their cross-border payments after making interest or principal payments. In addition, financial institutions are also required to report to PBOC or SAFE within the first five working days of each month the foreign debt they have borrowed and the change in their outstanding foreign debt during the previous month. The Bank is one of the 27 designated banks required to carry out the aforesaid reporting procedures. The 2017 PBOC Circular is a new regulation and is subject to interpretation and application by relevant PRC authorities. The 2017 PBOC Circular applies to the issue of Notes under the Programme by the Bank or its onshore branches, but does not explicitly state whether it applies to offshore subsidiaries or branches of financial institutions incorporated in the PRC.

If reporting is required but not complied with, PBOC and/or SAFE may, among other things, (a) issue a notice of censure, (b) request rectification within a time limit, (c) impose a penalty according to the Law of People's Republic of China on the People's Bank of China and the Regulation of the People's Republic of China on the Management of Foreign Exchanges, (d) suspend cross-border financing of the institution, and (e) collect risk reserves from the institution. In addition, in the worst case scenario, if reporting is required but not complied with, it might become unlawful for the Issuer to perform or comply with any of its obligations under the Notes and the Notes might be subject to the enforcement as provided in Condition 10 (Events of Default) of the Conditions. Pursuant to the Approval by the Enterprise Borrowing Foreign Debt Registration Certificate of 2020 (《企業借用外債備案登記證明》(發改辦外資備[2021]242號)) issued by the NDRC General Office on 24 March 2021 (the "**NDRC Approval**", separate pre-issuance registration with NDRC with respect to the Notes is not required. This NDRC Approval is subject to interpretation and application by relevant PRC authorities and the above-described uncertainties that apply to the 2017 PBOC Circular also apply to such approval.

Investors may experience difficulties in effecting service of legal process and enforcing judgments against the Bank and the Bank's management.

The Bank is a company incorporated under the laws of the PRC, and a substantial majority of its business, assets and operations are located in China. In addition, a majority of its directors, supervisors and executive officers reside in China, and substantially all of the assets of such directors, supervisors and executive officers are located in China. Therefore, it may not be possible for investors to effect service of process upon the Bank or those persons inside China.

Furthermore, China does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of many jurisdictions, including Japan, the United States and the United Kingdom. Hence, the recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

The Bank is subject to the PRC government controls on currency conversion and risks relating to fluctuations in exchange rates.

The Bank receives a substantial majority of its revenues in Renminbi, which is currently not a freely convertible currency. A portion of these revenues must be converted into other currencies in order to meet the Bank's foreign currency obligations. For example, the Bank needs to obtain foreign currency to make payments of declared dividends, if any, on its H shares.

Under China's existing foreign exchange regulations, by complying with certain procedural requirements, the Bank will be able to undertake current account foreign exchange transactions, including payment of dividends without prior approval from the SAFE. However, in the future, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for capital account and current account transactions under certain circumstances. In this case, the Bank may not be able to pay dividends in foreign currencies to holders of its H shares.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in China's and international political and economic conditions and the PRC government's fiscal and currency policies. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2.1 per cent. against the U.S. dollar. In August 2008, China revised the PRC Foreign Exchange Administration Regulations(中華人民共和國外匯管理條例)to promote the reform of its exchange rate regime. In June 2010, PBOC decided to further reform China's exchange rate system in order to make it more flexible. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in the decrease in the value of the Bank's foreign currency-denominated assets. Conversely, any devaluation of the Renminbi may adversely affect the value of, and any dividends payable on, the Bank's H shares in foreign currency terms. Although the Bank seeks to reduce its exchange rate risk through currency derivatives or otherwise, it cannot assure investors that it will be able to reduce its foreign currency risk exposure relating to its foreign currency-dominated assets. In addition, there are limited instruments available for the Bank to reduce its foreign currency risk exposure at reasonable costs. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may materially and adversely affect the financial conditions of certain of the Bank's customers, particularly those deriving substantial income from exporting products or engaging in related businesses, and in turn affect their abilities to service their obligations to the Bank. Furthermore, the Bank is also currently required to obtain the approval of the SAFE before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect the Bank's financial condition, results of operations and compliance with capital adequacy ratios and operational ratios.

Any future occurrence of natural disasters or outbreaks of contagious diseases in China may have a material adverse effect on the Bank's business operations, financial condition and results of operations.

Any future occurrence of natural disasters or outbreaks of health epidemics and contagious diseases may materially and adversely affect the Bank's business and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business. There is no assurance that any such outbreaks will not lead to decreased demand for services the Bank provides; nor is there assurance that such outbreak's adverse impact on the global economy and the Bank's customers will not adversely affect the level of non-performing loans. Such outbreaks may also adversely affect the Bank's ability to continue normal operations and provide uninterrupted services to its customers. China has also experienced natural disasters like earthquakes, floods and droughts in the past few years. For example, in May 2008 and April 2010, China experienced earthquakes with reported magnitudes of 8.0 and 7.1 on the Richter scale in Sichuan Province and Qinghai Province, respectively, resulting in the death of tens of thousands of people. The Bank suffered an adverse impact from the earthquake in Sichuan Province. The Bank also suffered the adverse impact from the earthquake in Qinghai Province, but the impact is not material because its operations in the locality affected by the earthquake are small. In 2010, there were severe droughts and flood in various parts of China, resulting in significant economic losses in these areas. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn the Bank's business, particularly in light of the substantial portion of the Bank's County Area Banking Business which is more vulnerable to natural disasters. There is no guarantee that any future occurrence of natural disasters or outbreaks of contagious diseases, or the response measures taken by the PRC government or other countries, will not seriously interrupt the Bank's operations or those of its customers, which may have a material and adverse effect on the Bank's results of operations.

Risks relating to the Notes issued under the Programme

The Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to an investor's overall portfolio. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Financial Institutions (Resolution) Ordinance may adversely affect the Notes

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "**FIRO**") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong which may be designated by the relevant resolution authorities, which may include the Bank to the extent it conducts licensed activities in Hong Kong. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, subject to certain safeguards, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the

Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Notes (whether senior or subordinated) may become subject to and bound by the FIRO.

The implementation of FIRO remains untested and certain details relating to FIRO will be set out through secondary legislation and supporting rules. Therefore, the Bank is unable to assess the full impact of FIRO and any potential secondary legislation and/or supporting rules made under FIRO on the financial system generally, the Bank's counterparties, the Bank, any of its consolidated subsidiaries, its operations and/or its financial position.

Modification and waivers

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and to obtain written resolutions on matters relating to the Notes from Noteholders without calling a meeting. A written resolution signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Notes of the relevant Series who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Agency Agreement and whose Notes are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

A written resolution as described above may be effected in connection with any matter affecting the interests of Noteholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Noteholders satisfying the special quorum in accordance with the provisions of the Agency Agreement, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes may be amended, modified, or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series. The Terms and Conditions of the Notes also provide that the Issuer may permit a modification of, or a waiver or authorisation of any breach or proposed breach of or a failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

Change of law

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

The Notes may be represented by Global Notes or Global Certificates and holders of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s)

Notes issued under the Programme may be represented by one or more Global Notes or Global Certificates. Such Global Notes or Global Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg, (each of Euroclear and Clearstream, Luxembourg, a "**Clearing System**"). Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive Definitive Notes or Certificates. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes or Global Certificate. While the Notes are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems. While the Notes are represented by one or more Global Notes or Global Certificates, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg, for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Certificate. Holders of beneficial interests in the Global Notes or Global Certificate will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

Potential investors should not place undue reliance on the financial information incorporated by reference that is not audited

This Offering Circular incorporates the most recently published unaudited but reviewed interim consolidated financial statements of the Bank published from time to time after the date of this Offering Circular, together with any review reports prepared in connection therewith, as well as the most recently published unaudited and unreviewed quarterly financial information. The Bank publishes its consolidated quarterly interim reports in respect of the three months ended 31 March and 30 September of each financial year. A copy of the quarterly interim reports can be found on the website of the HKSE. The quarterly interim reports have not been and will not be audited or reviewed by the Bank's independent auditors and were and will be prepared under IFRS. The quarterly interim financial information should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The half-year or quarterly interim financial information should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

The Notes are subordinated to all secured debt of each of the Issuer and the Bank

Each tranche of Notes will be unsecured and will rank at least equally with all other unsecured and unsubordinated indebtedness (except for creditors whose claims are preferred by laws and rank ahead of the holders of the Notes) that each of the Issuer and the Bank has issued or may issue. Payments under the Notes are effectively subordinated to all secured debt of each of the Issuer and the Bank to the extent of the value of the assets securing such debt.

As a result of such security interests given to the Issuer's and the Bank's secured lenders, in the event of a bankruptcy, liquidation, dissolution, reorganisation or similar proceeding involving the Issuer and the Bank, the affected assets of the Issuer and the Bank may not be used to pay the Noteholders until after all secured claims against the affected entity have been fully paid, and if the affected entity is a subsidiary of the Bank, all other claims against such subsidiary, including trade payables, have been fully paid.

Risks relating to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

The regulation and reform of "benchmark" rates of interest and indices may adversely affect the value of Notes linked to or referencing such "benchmarks"

Interest rates and indices which are deemed to be or used as "benchmarks", are the subject of recent national, international regulatory and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Note linked to or referencing such a benchmark.

Regulation (EU) 2016/1011 (the "**EU Benchmarks Regulation**") applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things, it (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognized or endorsed) and (ii) prevents certain uses by European Union supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-European Union based, not deemed equivalent or recognized or endorsed). Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK Benchmarks Regulation**") among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the United Kingdom Financial Conduct Authority ("**FCA**") or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable could have a material impact on any Notes linked to or referencing a benchmark in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international, national, or other proposals, for reforms or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Separately, the euro risk free-rate working group for the euro area has published a set of guiding principles and high level recommendations for fallback provisions in, amongst other things, new euro denominated cash products (including bonds) referencing EURIBOR. The guiding principles indicate, amongst other things, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system.

The potential elimination of the EURIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the Terms and Conditions of the Notes, or result in other consequences, in respect of any Notes linked to such benchmark. Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to the benchmark; (ii) trigger changes in the rules or methodologies used in the benchmark or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a benchmark.

The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a Benchmark Event occurs, including if an inter-bank offered rate (such as EURIBOR) or other relevant reference rate and/or any page on which such benchmark may be published (or any successor service) becomes unavailable, or if any Paying Agent, Calculation Agent, the Issuer or other party is no longer permitted lawfully to calculate interest on any Notes by reference to such benchmark. Such fallback arrangements include the possibility that the rate of interest could be set by reference to a Successor Rate or an Alternative Rate (both as defined in the Terms and Conditions of the Notes), with or without the application of an Adjustment Spread (as defined in the Terms and Conditions of the Notes). Adjustment Spread is the spread or a formula or methodology for calculating a spread which (i) is formally recommended in relation to the replacement of the Reference Rate (as defined in the Terms and Conditions of the Notes) with the Successor Rate by any Relevant Nominating Body (as defined in the Terms and Conditions of the Notes); (ii) if no such recommendation has been made or in the case of an Alternative Rate, the spread, formula or methodology which the Independent Adviser (as defined in the Terms and Conditions of the Notes) (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as applicable); or (iii) if the

Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines that no such customary market usage is recognised or acknowledged, the spread, formula or methodology which the Independent Adviser (in consultation with the Issuer) or the Issuer in its discretion (as applicable), determines (acting in a reasonable manner) to be appropriate, having regard to the objective, so far as is reasonably practicable in the circumstances, of reducing or eliminating any economic prejudice or benefit (as the case may be) to the Noteholders. There is no guarantee that any Adjustment Spread will be determined or applied. If no Adjustment Spread is determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the Rate of Interest.

The use of any such Successor Rate or Alternative Rate or, if applied, Adjustment Spread to determine the Rate of Interest may result in Notes linked to or referencing the initial inter-bank offered rate or other relevant reference rate performing differently (including paying a lower Rate of Interest) than they would do if the initial inter-bank offered rate or other relevant reference rate (as applicable) were to continue to apply in its current form.

Under these fallback arrangements, the Issuer will use all reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser (as defined in the Terms and Conditions of the Notes) to determine the Successor Rate or Alternative Rate (as applicable), no later than five business days prior to the relevant Interest Determination Date (the "**IA Determination Cut-off Date**"), but in the event that the Issuer is unable to appoint an Independent Adviser, or such Independent Adviser fails to determine the Successor Rate or Alternative Rate (as applicable) prior to the relevant IA Determination Cut-off Date, the Issuer (acting in a reasonable manner) will have discretion to, amongst other things, determine the relevant Successor Rate or Alternative Rate (as applicable). There can be no assurance that such Successor Rate or Alternative Rate (as applicable) determined by the Issuer will be set at a level which is on terms commercially acceptable to all Noteholders.

In certain circumstances, the ultimate fallback for the purposes of calculation of Rate of Interest for a particular Interest Accrual Period may result in the Rate of Interest for the last preceding Interest Accrual Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. Due to the uncertainty concerning the availability of Successor Rates and Alternative Rates, any determinations that may need to be made by the Issuer with the involvement of an Independent Adviser entails a risk that the relevant fallback provisions may not operate as intended at the relevant time. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by Benchmarks Regulation (EU) 2016/1011 or any other international or national reforms, in making any investment decision with respect to any Notes linked to or referencing a benchmark.

The use of Secured Overnight Financing Rate ("SOFR") as a reference rate is subject to important limitations

The rate of interest on the Floating Rate Notes may be calculated on the basis of SOFR (as further described under Condition 5(b)(iii)(c) of the Terms and Conditions of the Notes).

In June 2017, the New York Federal Reserve's Alternative Reference Rates Committee (the "**ARRC**") announced SOFR as its recommended alternative to U.S. dollar LIBOR. However, the composition and characteristics of SOFR are not the same as those of LIBOR. SOFR is a broad U.S. Treasury repo-financing rate that represents overnight secured funding transactions. This means that SOFR is fundamentally different from LIBOR for two key reasons. First, SOFR is a secured rate, while LIBOR is an unsecured rate. Second, SOFR is an overnight rate, while LIBOR represents interbank funding over different maturities. As a result, there can be no assurance that SOFR will perform in the same way as LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, market volatility or global or regional economic, financial, political, or regulatory events. For example, since publication of SOFR began in April 2018, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmark or other market rates.

As SOFR is an overnight funding rate, interest on SOFR-based Notes with interest periods longer than overnight will be calculated on the basis of either the arithmetic mean of SOFR over the relevant interest period or compounding SOFR during the relevant interest period. As a consequence of this calculation method, the amount of interest payable on each interest payment date will only be known a short period of time prior to the relevant interest payment date. Noteholders therefore will not know in advance the interest amount which will be payable on such Notes.

Although the Federal Reserve Bank of New York has published historical indicative SOFR information going back to 2014, such prepublication of historical data inherently involves assumptions, estimates and approximations. Noteholders should not rely on any historical changes or trends in the SOFR as an indicator of future changes in the SOFR.

The Federal Reserve Bank of New York notes on its publication page for SOFR that use of the SOFR is subject to important limitations and disclaimers, including that the Federal Reserve Bank of New York may alter the methods of calculation, publication schedule, rate revision practices or availability of the SOFR at any time without notice. In addition, SOFR is published by the Federal Reserve Bank of New York based on data received from other sources. There can be no guarantee that the SOFR will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of the Noteholders. If the manner in which the SOFR is calculated is changed or if SOFR is discontinued, that change or discontinuance may result in a reduction or elimination of the amount of interest payable on the Notes and a reduction in the trading prices of the Notes which would negatively impact the Noteholders who could lose part of their investment.

The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a SOFR Benchmark Event occurs, which is based on the ARRC recommended language. There is however no guarantee that the fallback arrangements will operate as intended at the relevant time or operate on terms commercially acceptable to all Noteholders. Investors should consult their own independent advisers and make their own assessment about the potential risks in making any investment decision with respect to any Notes linked to SOFR.

The market continues to develop in relation to SOFR as a reference rate for Floating Rate Notes

Investors should be aware that the market continues to develop in relation to SOFR. Market participants and relevant working groups are exploring alternative reference rates based on SOFR (which seek to measure the market's forward expectation of a SOFR rate over a designated term). The market or a significant part thereof may adopt an application of SOFR that differs significantly from that set out in the Terms and Conditions of the Notes. In addition, the manner of adoption or application of SOFR in the bond markets may differ materially compared with the application and adoption of SOFR in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SOFR in the bond, loan and derivatives markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Notes referencing SOFR. In addition, the development of SOFR as an interest reference rate for the bond markets, as well as continued development of SOFR-based rates, indices and averages for such markets and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of Notes referencing SOFR. Similarly, if SOFR is not proven to be widely used in securities such as the Notes referencing SOFR, investors may not be able to sell such Notes referencing SOFR at all or the trading price of the Notes referencing SOFR maybe lower than those of bonds linked to indices that are more widely used.

The use of SOFR as a reference rate for bonds is nascent, and may be subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing such rates. Notes referencing SOFR may have no established trading market when issued, and an established trading market may never develop or may not be very liquid which, in turn, may reduce the trading price of such Notes or mean that investors in such Notes may not be able to sell such Notes at all or may not be able to sell such Notes at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk. Investors should consider these matters when making their investment decision with respect to Notes referencing SOFR.

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index linked Notes and dual currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse floating rate Notes

Inverse floating rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as the EURIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse floating rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating rate notes

Fixed/floating rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the fixed/floating rate Notes may be less favourable than then prevailing spreads on comparable floating rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Bearer Notes where denominations involve integral multiples

In relation to any issue of Notes in bearer form which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that the Notes may be traded in amounts that are not integral multiples of such minimum Specified Denominations (as defined in the Conditions). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks Relating to Renminbi-denominated Notes

Notes denominated in RMB (the "**RMB Notes**") may be issued under the Programme. RMB Notes contain particular risks for potential investors.

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into or out of the PRC

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the U.S. dollar, despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong have been permitted to engage in the settlement of RMB trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in August 2011 to cover the whole nation and to make RMB trade and other current account item settlement available in all countries worldwide. On 7 April 2011, the SAFE promulgated the Circular on Issues Concerning the Capital Account Items in connection with Cross-Border Renminbi (國家外匯管理局綜合司關於規範跨境人民幣資本項目業務操作有關問題的通知)(the "**SAFE Circular**"), which became effective on 1 May 2011. According to the SAFE Circular, in the event that foreign investors intend to use cross-border Renminbi (including offshore Renminbi and onshore Renminbi held in the accounts of non-PRC residents) to make contribution to an onshore enterprise or make payment for the transfer of equity interest of an onshore enterprise by a PRC resident, such onshore enterprise shall be required to submit the relevant prior written consent from the MOFCOM to the relevant local branches of SAFE of such onshore enterprise and register for a foreign invested enterprise status. Further, the SAFE Circular clarifies that the foreign debts borrowed, and the external guarantee provided, by an onshore entity (including a financial institution) in RMB shall, in principle, be regulated under the current PRC foreign debt and external guarantee regime.

On 13 October 2011, the PBOC issued the Measures on Administration of the RMB Settlement in relation to Foreign Direct Investment (外商直接投資人民幣結算業務管理辦法)(the "**PBOC RMB FDI Measures**") which was revised on 29 May 2015, to commence the PBOC's detailed RMB FDI administration system, which covers almost all aspects of RMB FDI, including capital injection, payment of purchase price in the acquisition of PRC domestic enterprises, repatriation of dividends and distribution, as well as RMB denominated cross-border loans. Under the PBOC RMB FDI Measures, special approval for RMB FDI and shareholder loans from the PBOC which was previously required by the PBOC Circular (as defined in "**PRC Currency Controls**") is no longer necessary. The MOFCOM RMB FDI Circular and the PBOC RMB FDI Measures, which are new regulations, will be subject to interpretation and application by the relevant PRC authorities. See "*PRC Currency Controls*".

On 3 December 2013, MOFCOM promulgated the "Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment" (商務部關於跨境人民幣直接投資有關問題的公告)(the "**MOFCOM RMB FDI Circular**"), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. The MOFCOM Circular replaced the "Notice on Issues in relation to Cross-border Renminbi Foreign Direct Investment" (商務部關於跨境人民幣直接投資有關問題的通知) promulgated by MOFCOM on 12 October 2011 (the "**2011 MOFCOM Notice**"). Pursuant to the MOFCOM RMB FDI Circular, written approval from the appropriate office of MOFCOM and/or its local counterparts specifying "Renminbi Foreign Direct Investment" and the amount of capital contribution is required for each FDI. Compared with the 2011 MOFCOM Notice, the MOFCOM RMB FDI Circular no longer contains the requirements for central level MOFCOM approvals for investments of RMB300 million or above, or in certain industries, such as financial guarantee, financial leasing, micro-credit, auction, foreign invested investment companies, venture capital and equity investment vehicles, cement, iron and steel, electrolyse aluminium, ship building and other industries under the state macro-regulation. Unlike the 2011 MOFCOM Notice, the MOFCOM RMB FDI Circular has also removed the approval requirement for foreign investors who intend to change the currency of their existing capital contribution from a foreign currency to Renminbi.

The reforms which are being introduced and will be introduced in the Shanghai Free Trade Zone (the "**Shanghai FTZ**") aim to upgrade cross-border trade, liberalise foreign exchange control, increase the convenience of cross-border use of Renminbi, and promote the internationalisation of Renminbi. However, given that the Shanghai FTZ is still in its infancy, how the reforms will be implemented and whether (and if so when) the reforms will be rolled out throughout China remain uncertain.

To support the development of the Shanghai FTZ, the Shanghai Head Office of the PBOC issued the Circular on Supporting the Expanded Cross-border Utilisation of Renminbi in the Shanghai FTZ (關於支持中國(上海)自由貿易試驗區擴大人民幣跨境使用的通知) (the "**PBOC Shanghai FTZ Circular**") on 20 February 2014, which allows banks in Shanghai to settle FDI based on a foreign investor's instruction. In respect of FDI in industries that are not on the "negative list" of the Shanghai FTZ, the MOFCOM approval that was previously required has been replaced by a filing. However, the application of the Shanghai FTZ Circular is limited to the Shanghai FTZ.

In addition, the MOFCOM RMB FDI Circular also clearly prohibits FDI funds from being used for any investments in securities and financial derivatives (except for investments in PRC listed companies by strategic investors) or for entrustment loans in the PRC.

As the MOFCOM RMB FDI Circular and the PBOC RMB FDI Measures are relatively new circulars, they will be subject to interpretation and application by the relevant authorities in the PRC.

Although starting from 1 October 2016, the Renminbi was added to the Special Drawing Rights basket created by the International Monetary Fund and policies further improving accessibility to Renminbi to settle cross-border transactions in foreign currencies were implemented by the PBOC in 2018, there is no assurance that the PRC government will continue to gradually liberalise the control over cross-border RMB remittances in the future, that the pilot scheme introduced in July 2009 will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under RMB Notes.

The availability of Renminbi outside the PRC may be limited, which may affect the liquidity of RMB Notes and the Issuer's ability to source Renminbi outside the PRC to service such RMB Notes

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. Since February 2004, in accordance with arrangements between the PRC central government and the Hong Kong government, licensed banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and specified business customers. Hong Kong residents are permitted to convert limited amounts of foreign currencies, including Hong Kong dollars, into Renminbi at such banks on a per-day basis. The PBOC has also established a Renminbi clearing and settlement system for participating banks in Hong Kong. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of RMB Business (the "**Settlement Agreement**") between the PBOC and Bank of China (Hong Kong) Limited (the "**RMB Clearing Bank**") to further expand the scope of RMB business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open RMB accounts in Hong Kong; there is no longer any limit on the ability of corporations to convert RMB; and there will no longer be any restriction on the transfer of RMB funds between different accounts in Hong Kong. However, the current size of Renminbi-denominated financial assets outside the PRC is limited. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. They are only allowed to square their open positions with the RMB Clearing Bank after consolidating the RMB trade position of banks outside Hong Kong that are in the same bank group of the participating banks concerned with their own trade position and the RMB Clearing Bank only has access to onshore liquidity support from the PBOC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for individual customers of up to RMB20,000 per person per day and for the designated business customers relating to the RMB received in providing their services. The RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside the PRC may affect the liquidity of the Issuer's RMB Notes. To the extent the Issuer is required to source Renminbi in the offshore market to service its RMB Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Investment in RMB Notes is subject to exchange rate risks

The value of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. The Issuer will make all payments of interest and principal with respect to the RMB Notes in Renminbi. As a result, the value of these Renminbi payments in U.S. dollar or other applicable foreign currency terms may vary with changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. dollar or other applicable foreign currency between then and when the Issuer pays back the principal of the RMB Notes in Renminbi at maturity, the value of a Noteholder's investment in U.S. dollar or other applicable foreign currency terms will have declined.

Payments for the RMB Notes will only be made to investors in the manner specified in the RMB Notes

Investors may be required to provide certifications and other information (including Renminbi account information) in order to be allowed to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong. All Renminbi payments to investors in respect of the RMB Notes will be made solely (i) for so long as the RMB Notes are represented by a temporary Global Note, a permanent Global Note or a Global Certificate held with the common depositary for Clearstream, Luxembourg and Euroclear Bank or with a sub-custodian for the CMU or any alternative clearing system by transfer to a Renminbi bank account maintained in Hong Kong, or (ii) for so long as the RMB Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with the prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

There may be PRC tax consequences with respect to an investment in the RMB Notes

In considering whether to invest in the RMB Notes, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situation as well as any tax consequences arising under the laws of any other tax jurisdictions. The value of the holder's investment in the RMB Notes may be materially and adversely affected if the holder is required to pay PRC tax with respect to acquiring, holding or disposing of and receiving payments under those RMB Notes.

Remittance of proceeds into or outside of the PRC in Renminbi may be difficult

In the event that the Issuer decides to remit some or all of the proceeds into the PRC in RMB, its ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. However, there can be no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

In the event that the Issuer does remit some or all of the proceeds into the PRC in RMB and the subsequently is not able to repatriate funds outside the PRC in RMB, it will need to source RMB outside the PRC to finance its obligations under the RMB Notes, and its ability to do so will be subject to the overall availability of RMB outside the PRC.

Investment in the Renminbi Notes is subject to interest rate risks

The value of RMB payments under RMB Notes may be susceptible to interest rate fluctuations occurring within and outside the PRC, including PRC RMB repo rates and/or the Shanghai inter-bank offered rate. The PRC government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for RMB in markets outside the PRC may significantly deviate from the interest rate for RMB in the PRC as a result of foreign exchange controls imposed by PRC law and regulations and prevailing market conditions.

The RMB Notes may carry a fixed interest rate. Consequently, the trading price of such Notes will vary with the fluctuations in the Renminbi interest rates. If holders of RMB Notes propose to sell their Notes before their maturity, they may receive an offer lower than the amount they have invested.

Risks relating to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Developments in other markets may adversely affect the market price of the Notes.

The market price of the Notes may be adversely affected by declines in the international financial markets and global economic downturn. The market for the Notes is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issues in other countries, including the PRC. Since the global financial crisis in 2008 and 2009, the international financial markets have experienced significant volatility, such as that caused in recent years by the global financial and economic crisis, including the European debt crisis, the potential withdrawal of countries from the Euro-zone and the United Kingdom formally notifying the European Counsel of its desire to withdraw from the European Union following the referendum in the United Kingdom on 23 June 2016 (where on 31 January 2020, the United Kingdom's membership of the European Union formally ended), the recent US-China trade tensions including the restrictions, prohibitions and other similar regulatory measures announced by the United States and the COVID-19 outbreak which has caused stock markets worldwide to lose significant value and impacted economic activities in Asia and worldwide. If similar developments occur in the international financial markets in the future, the market price of the Notes could be adversely affected.

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a material adverse effect on the market value of the Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Inventor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in fixed rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of fixed rate Notes.

Credit ratings may not reflect all risks and any credit rating may be downgraded or withdrawn

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Each Tranche of Notes may be rated or unrated, as specified in the applicable Pricing Supplement. The rating represents the opinion of the relevant rating agency and its assessment of the ability of the Issuer to perform their respective obligations under the Notes, and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities. The rating can be lowered or withdrawn at any time. The Issuer is not obligated to inform holders of the Notes if a rating is lowered or withdrawn. A reduction or withdrawal of a rating may adversely affect the market price of the Notes.

Risks relating to the Group's financial statements

The Bank may continue to publish periodical financial information in the PRC pursuant to applicable PRC regulatory rules. Investors should be cautious and not place any reliance on the financial information other than that disclosed in this Offering Circular.

The Bank from time to time issue corporate bonds, private placement bonds and medium term notes in the domestic capital markets in the PRC. According to applicable PRC securities regulations on debt capital markets, the Bank needs to publish its quarterly, half year and annual financial information to satisfy its continuing disclosure obligations relating to its bonds in the domestic capital markets. So long as any bond remains outstanding, the Bank is obligated by the terms of the bonds, among others, to provide holders of the bonds with its audited annual consolidated financial statements and certain unaudited but reviewed semi-annual consolidated financial statements. The published financial information in the PRC may be adjusted or restated to address subsequent changes in accordance with the accounting standards, the Bank's accounting policies and/or applicable laws and regulations affecting the Bank's financial reporting or to reflect the subsequent comments given by the independent auditors during the course of such auditors' audit or review. Such adjustment or restatement may cause discrepancies between the financial information with respect to a particular period or date contained in the Bank's management accounts published in the PRC and the audited or reviewed consolidated financial statements disclosed elsewhere in this Offering Circular. The Bank is not responsible to holders of the Notes for the unaudited and unreviewed financial information from time to time published in the PRC and therefore potential investors should not place any reliance on any such financial information.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

TERMS AND CONDITIONS OF THE NOTES

*The following other than the words in italics is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate representing each Series. Either (i) the full text of the terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) the terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in the Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Bearer Notes or Certificates, as the case may be. References in the Conditions to "**Notes**" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are part of a Series (as defined below) of Notes issued by the issuing branch of the Bank (as defined below) located outside of the PRC specified hereon as issuer (the "**Issuer**") and are issued pursuant to an amended and restated agency agreement dated 25 October 2021, as amended and supplemented by the first supplemental agency agreement dated 16 January 2023 (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") between Agricultural Bank of China Limited (the "**Bank**"), Agricultural Bank of China Limited Hong Kong Branch 中國農業銀行股份有限公司香港分行 as fiscal agent and the other agents named in it and with the benefit of a Deed of Covenant (as amended or supplemented as at the Issue Date, the "**Deed of Covenant**") dated 17 July 2015 executed by the Bank in relation to the Notes. The fiscal agent, the CMU Lodging and paying agent, the other paying agents, the registrars, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**CMU Lodging and Paying Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent and the CMU Lodging and Paying Agent), the "**Registrar**", the "**Transfer Agents**" and the "**Calculation Agent(s)**". For the purposes of these terms and conditions (the "**Conditions**"), all references to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly. The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

1 Form, Denomination and Title

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note, or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 No Exchange of Notes and Transfers of Registered Notes

(a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) **Transfer of Registered Notes:** Subject to Conditions 2(f) and 2(g), one or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor.

(c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any other Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or 2(c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent (as defined in the Agency Agreement) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) **Transfer Free of Charge:** Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

(g) **Regulations Concerning Transfers and Registration:** All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3 Status

The Notes and the Receipts and the Coupons relating to them constitute direct, unconditional, unsubordinated and (subject to Condition 4(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

4 Negative Pledge and Other Covenants

(a) **Negative Pledge:** So long as any Note or Coupon remains outstanding (as defined in the Agency Agreement) the Bank will not, and will ensure that none of its Subsidiaries will create, or have outstanding any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Public External Indebtedness or to secure any guarantee or indemnity in respect of any Public External Indebtedness without at the same time or prior thereto according to the Notes and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of

Noteholders. This provision, however, will not apply to any (i) security interest on any property or asset existing at the time of acquisition of such property or asset or to secure the payment of all or any part of the purchase price or construction cost thereof or to secure any indebtedness incurred prior to, or at the time of, such acquisition or the completion of construction of such property or asset for the purpose of financing all or any part of the purchase price or construction cost thereof or (ii) lien arising by operation of law.

(b) **NDRC Reporting:** Where the NDRC Circular or the NDRC Administrative Measures, as the case may be, applies to the Tranche of Notes to be issued, the Issuer undertakes to provide or cause to be provided a notification of the requisite information and documents in connection with such Tranche of Notes to the NDRC, and comply with any other applicable reporting requirement in connection with such Tranche of Notes, within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Circular or the NDRC Administrative Measures, as the case may be.

(c) **PBOC Filing:** Where the PBOC Circular applies to the Tranche of Notes to be issued, the Issuer undertakes to complete the filing of such Notes prior to the relevant launch of the offering, and, as applicable, after the relevant Issue Date within the prescribed timeframe in accordance with the PBOC Circular.

(d) **CBIRC Approval and Filing:** In the case of an issuance of Notes by the Bank as the Issuer, the Issuer shall obtain, as applicable, the approvals from CBIRC for the creation and issuance of the relevant Tranche of Notes, and complete the reporting and submission to CBIRC which are permitted to be obtained or completed after the date of the issuance of the relevant Tranche of Notes.

(e) In these Conditions:

(i) "**CBIRC**" means China Banking and Insurance Regulatory Commission or its local counterparts;

(ii) "**NDRC**" means the National Development and Reform Commission of the PRC;

(iii) "**NDRC Circular**" means the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資 [2015] 2044號)) issued by the NDRC and which came into effect on 14 September 2015, and as amended and supplemented by any implementation or guidance rules or policies (including but not limited to a pilot programme) as issued by the NDRC from time to time;

(iv) "**NDRC Administrative Measures**" means the Administrative Measures for the Examination and Registration of Medium and Long-term Foreign Debts of Enterprises (《企業中長期外債審核登記管理辦法》(國家發展和改革委員會令第56號)) issued by the NDRC on 5 January 2023 and effective on 10 February 2023, and as amended and supplemented by any implementation or guidance rules or policies as issued by the NDRC from time to time;

(v) "**PBOC**" means the People's Bank of China;

(vi) "**PBOC Circular**" means the Notice of the People's Bank of China on Matters concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing (中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知) as issued by the PBOC on 11 January 2017;

(vii) "**Public External Indebtedness**" means any indebtedness of the Bank (or, for the purpose of Condition 9, any Subsidiary), or any guarantee or indemnity by the Bank of indebtedness, for money borrowed, which (i) is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the People's Republic of China (for the purpose hereof not including the Hong Kong and Macau Special Administrative Regions or Taiwan) (the "**PRC**") (without regard, however, to whether or not such instruments are sold through public offerings or private placements); and (ii) has an original maturity of more than 365 days; and

(viii) "**Subsidiary**" means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Bank.

5 Interest and other Calculations

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**

(i) ***Interest Payment Dates***: Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined by the Calculation Agent in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) ***Business Day Convention***: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) ***Rate of Interest for Floating Rate Notes***: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined by the Calculation Agent in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ***ISDA Determination for Floating Rate Notes***

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin, if any. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon

(y) the Designated Maturity is a period specified hereon and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) ***Screen Rate Determination for Floating Rate Notes (other than Floating Rate Notes which specify the Reference Rate as SOFR)***

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) or 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (in the case of CNH HIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than EURIBOR, HIBOR or CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(y) if the Relevant Screen Page is not available or, if sub-paragraph (x)(l) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (x)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, or, if the Reference Rate is HIBOR or CNH HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) ***Screen Rate Determination for Floating Rate Notes where the Reference Rate is specified as being SOFR Benchmark***

If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate of Interest is to be determined where the Reference Rate is SOFR Benchmark, the Rate of Interest applicable to the Floating Rate Notes for each Interest Accrual Period will, subject as provided below, be equal to the sum of the relevant SOFR Benchmark plus or minus (as specified in the relevant Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent on the relevant Interest Determination Date.

The "**SOFR Benchmark**" will be determined based on Simple SOFR Average, Compounded Daily SOFR or SOFR Compounded Index (as specified in the relevant Pricing Supplement), as follows (subject in each case to Condition 5(b)(v)):

(x) If Simple SOFR Average ("**Simple SOFR Average**") is specified in the relevant Pricing Supplement as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Interest Accrual Period shall be the arithmetic mean of the SOFR reference rates for each day during such Interest Accrual Period, as calculated by the Calculation Agent, and where, if applicable and as specified in the relevant Pricing Supplement, the SOFR reference rate on the SOFR Rate Cut-Off Date shall be used for the days in the relevant Interest Accrual Period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the last day of that Interest Accrual Period.

(y) If Compounded Daily SOFR ("**Compounded Daily SOFR**") is specified in the relevant Pricing Supplement as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Interest Accrual Period shall be equal to the compounded average of daily SOFR reference rates for each day during the relevant Interest Accrual Period (where SOFR Observation Lag, SOFR Payment Delay or SOFR Lockout is specified in the relevant Pricing Supplement to determine Compounded Daily SOFR) or the SOFR Observation Period (where SOFR Observation Shift is specified as applicable in the relevant Pricing Supplement to determine Compounded Daily SOFR).

Compounded Daily SOFR shall be calculated by the Calculation Agent in accordance with one of the formulas referenced below depending upon which is specified in the relevant Pricing Supplement:

i. SOFR Observation Lag:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_{i-xUSBD} \times n_i}{360}\right)-1\right) \times \frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded upwards) (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**SOFRi$_{\text{-xUSBD}}$**" for any U.S. Government Securities Business Day(i) in the relevant Interest Accrual Period, is equal to the SOFR reference rate for the U.S. Government Securities Business Day falling the number of Lookback Days prior to that U.S. Government Securities Business Day (i);

"**Lookback Days**" means such number of U.S. Government Securities Business Days as specified in the relevant Pricing Supplement;

"**d**" means the number of calendar days in the relevant Interest Accrual Period;

"**d_o**" for any Interest Accrual Period, means the number of U.S. Government Securities Business Days in the relevant Interest Accrual Period;

"**i**" means a series of whole numbers ascending from one to d_o, each representing the relevant U.S. Government Securities Business Day in chronological order from (and including) the first U.S. Government Securities Business Day in the relevant Interest Accrual Period (each, a "**U.S. Government Securities Business Day(i)**"); and

"**n_i**" for any U.S. Government Securities Business Day(i), means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

ii. SOFR Observation Shift:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right) \times \frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded upwards) (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"$\mathbf{SOFR_i}$" for any U.S. Government Securities Business Day(i) in the relevant SOFR Observation Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day(i);

"**SOFR Observation Period**" means, in respect of an Interest Accrual Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of such Interest Accrual Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the Interest Period Date of such Interest Accrual Period;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified in the relevant Pricing Supplement;

"**d**" means the number of calendar days in the relevant SOFR Observation Period;

"$\mathbf{d_o}$" for any SOFR Observation Period, means the number of U.S. Government Securities Business Days in the relevant SOFR Observation Period;

"**i**" means a series of whole numbers ascending from one to d_o, each representing the relevant U.S. Government Securities Business Day in chronological order from (and including) the first U.S. Government Securities Business Day in the relevant SOFR Observation Period (each, a "**U.S. Government Securities Business Day(i)**"); and

"$\mathbf{n_i}$" for any U.S. Government Securities Business Day(i), means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

iii. SOFR Payment Delay:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded upwards) (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"$\mathbf{SOFR_i}$" for any U.S. Government Securities Business Day(i) in the relevant Interest Accrual Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day(i);

"**Interest Payment Date**" shall be the number of Interest Payment Delay Days following each Interest Period Date; provided that the Interest Payment Date with respect to the final Interest Accrual Period will be the Maturity Date or the relevant date for redemption, as applicable;

"**Interest Payment Delay Days**" means the number of Business Days as specified in the relevant Pricing Supplement;

"**d**" means the number of calendar days in the relevant Interest Accrual Period;

"**d_o**" for any Interest Accrual Period, means the number of U.S. Government Securities Business Days in the relevant Interest Accrual Period;

"**i**" means a series of whole numbers ascending from one to d_o, each representing the relevant U.S. Government Securities Business Day in chronological order from (and including) the first U.S. Government Securities Business Day in the relevant Interest Accrual Period (each, a "**U.S. Government Securities Business Day(i)**"); and

"**n_i**" for any U.S. Government Securities Business Day(i), means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

For the purposes of calculating Compounded Daily SOFR with respect to the final Interest Accrual Period where SOFR Payment Delay is specified in the relevant Pricing Supplement, the SOFR reference rate for each U.S. Government Securities Business Day in the period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the Maturity Date or the relevant date for redemption, as applicable, shall be the SOFR reference rate in respect of such SOFR Rate Cut-Off Date.

iv. SOFR Lockout:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded upwards) (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**$SOFR_i$**" for any U.S. Government Securities Business Day(i) in the relevant Interest Accrual Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day(i) except that the SOFR for any U.S. Government Securities Business Day(i) in respect of the period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the last day of such Interest Accrual Period shall be the SOFR reference rate in respect of such SOFR Rate Cut-Off Date;

"**d**" means the number of calendar days in the relevant Interest Accrual Period;

"**d_o**" for any Interest Accrual Period, means the number of U.S. Government Securities Business Days in the relevant Interest Accrual Period;

"**i**" means a series of whole numbers ascending from one to d_o, representing each relevant U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant Interest Accrual Period (each, a "**U.S. Government Securities Business Day(i)**"); and

"**n_i**" for any U.S. Government Securities Business Day(i), means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

The following defined terms shall have the meanings set out below for purpose of Conditions 5(b)(iii)(C)(x) and 5(b)(iii)(C)(y):

"**Bloomberg Screen SOFRRATE Page**" means the Bloomberg screen designated "SOFRRATE" or any successor page or service;

"**Reuters Page USDSOFR=**" means the Reuters page designated "USDSOFR=" or any successor page or service;

"**SOFR**" means, with respect to any U.S. Government Securities Business Day, the reference rate determined by the Calculation Agent in accordance with the following provision:

(i) the Secured Overnight Financing Rate published at the SOFR Determination Time as such reference rate is reported on the Bloomberg Screen SOFRRATE Page; the Secured Overnight Financing Rate published at the SOFR Determination Time as such reference rate is reported on the Reuters Page USDSOFR=; or the Secured Overnight Financing Rate published at the SOFR Determination Time on the SOFR Administrator's Website;

(ii) if the reference rate specified in (i) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the SOFR reference rate shall be the reference rate published on the SOFR Administrator's Website for the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator's Website; or

(iii) if the reference rate specified in (i) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5(b)(v) shall apply;

"**SOFR Determination Time**" means approximately 3:00 p.m. (New York City time) on the immediately following the relevant U.S. Government Securities Business Day.

(z) If SOFR Compounded Index ("**SOFR Compounded Index**") is specified as applicable in the relevant Pricing Supplement, the SOFR Benchmark for each Interest Accrual Period shall be equal to the compounded average of daily SOFR reference rates for each day during the relevant SOFR Observation Period as calculated by the Calculation Agent as follows:

$$\left(\frac{SOFR\ Index_{End}}{SOFR\ Index_{Start}} - 1\right) \times \left(\frac{360}{d_c}\right)$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded upwards) (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**SOFR Index**", with respect to any U.S. Government Securities Business Day, means the SOFR Index value as published on the SOFR Administrator's Website at the SOFR Index Determination Time on such U.S. Government Securities Business Day, *provided that* if such SOFR Index value is not available and:

(i) if a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the "**SOFR Compounded Index**" shall be calculated on any Interest Determination Date with respect to an Interest Accrual Period, in accordance with the Compounded Daily SOFR formula described above in Condition 5(b)(iii)(C)(y)(ii) (*SOFR Observation Shift*); or

(ii) if a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5(b)(v) shall apply;

"**SOFR Index$_{\mathbf{End}}$**" means, in respect of an Interest Accrual Period, the SOFR Index value on the date that is SOFR Observation Shift Days prior to the Interest Period Date for such Interest Accrual Period (or in the final Interest Accrual Period, the Maturity Date);

"**SOFR Index$_{\mathbf{Start}}$**" means, in respect of an Interest Accrual Period, the SOFR Index value on the date that is SOFR Observation Shift Days prior to the first date of such Interest Accrual Period;

"**SOFR Index Determination Time**" means, in relation to any U.S. Government Securities Business Day, approximately 3:00 p.m. (New York City time) on such U.S. Government Securities Business Day;

"**SOFR Observation Period**" means, in respect of an Interest Accrual Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of such Interest Accrual Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the Interest Period Date for such Interest Accrual Period;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified in the relevant Pricing Supplement; and

"$\mathbf{d_c}$" means the number of calendar days in the applicable SOFR Observation Period.

If the Notes become due and payable in accordance with Condition 10, the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the relevant Pricing Supplement, be deemed to be the date on which the Notes became due and payable and the Rate of Interest on the Notes shall, for so long as the Notes remain outstanding, be that determined on such date.

The following defined terms shall have the meanings set out below for purpose of this Condition 5(b)(iii)(C):

"**SOFR Administrator's Website**" means the website of the Federal Reserve Bank of New York (currently, being https://www.newyorkfed.org/markets/reference-rates/sofr-averages-and-index), or any successor source;

"**SOFR Benchmark Replacement Date**" means the date of occurrence of a Benchmark Event with respect to the then-current Benchmark;

"**SOFR Benchmark Transition Event**" means the occurrence of a Benchmark Event with respect to the then-current Benchmark;

"**SOFR Rate Cut-Off Date**" has the meaning given in the relevant Pricing Supplement; and

"**U.S. Government Securities Business Day**" or "**USBD**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(iv) ***Benchmark Replacement for Floating Rate Notes (other than Floating Rate Notes which specify the Reference Rate as SOFR):*** In addition, notwithstanding the provisions of this Condition 5(b), if the Issuer determines that a Benchmark Event has occurred in relation to the relevant Reference Rate specified hereon when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Reference Rate, then the following provisions shall apply:

(A) Independent Adviser

The Issuer shall use its reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser to determine, no later than five business days prior to the relevant Interest Determination Date relating to the next succeeding Interest Accrual Period (the "**IA Determination Cut-off Date**"), a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5(b)(iv)(B)) and, in either case, an Adjustment Spread if any (in accordance with Condition 5(b)(iv)(C)) and any Benchmark Amendments (in accordance with Condition 5(b)(iv)(D)).

An Independent Adviser appointed pursuant to this Condition 5(b)(iv)(A) shall act in good faith as an expert and in consultation with the Issuer. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Fiscal Agent, the Paying Agents, the Noteholders or the Couponholders for any determination made by it pursuant to this Condition 5(b)(iv).

If (x) the Issuer is unable to appoint an Independent Adviser, or (y) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate prior to the IA Determination Cut-off Date, the Issuer (acting in a reasonable manner) may determine a Successor Rate or, failing which, an Alternative Rate. However, if no Successor Rate or Alternative Rate is determined prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Accrual Period only and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided, in this Condition 5(b)(iv).

(B) *Successor Rate or Alternative Rate*

If the Independent Adviser or the Issuer (acting in a reasonable manner) (as applicable) determines that:

(I) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 5(b)(iv)(C)) subsequently be used in place of the Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(b)(iv)); or

(II) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 5(b)(iv)(C)) subsequently be used in place of the Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(b)(iv)).

(C) *Adjustment Spread*

If the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines (x) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as applicable) and (y) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as applicable). If the Independent Adviser or the Issuer (acting in a reasonable manner) (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.

(D) *Benchmark Amendments*

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5(b)(iv) and the Independent Adviser or the Issuer (acting in good faith and in a commercially reasonable manner) (as applicable) determines (x) that amendments to these Conditions and/or the Agency Agreement are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (y) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(b)(iv)(E), without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Fiscal Agent of a certificate signed by two Directors of the Issuer pursuant to Condition 5(b)(iv)(E), the Fiscal Agent shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Agency Agreement), provided that the Fiscal Agent shall not be obliged so to concur if in the opinion of the Fiscal Agent doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Fiscal Agent in these Conditions or the Agency Agreement (including, for the avoidance of doubt, any supplemental agency agreement) in any way.

In connection with any such variation in accordance with this Condition 5(b)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(E) *Notices, etc.*

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 5(b)(iv) will be notified promptly by the Issuer to the Fiscal Agent, the Calculation Agent, the Paying Agents and, in accordance with Condition 14, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Fiscal Agent of the same, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer:

(I) confirming (x) that a Benchmark Event has occurred, (y) the Successor Rate or, as the case may be, the Alternative Rate and, (z) where applicable, any Adjustment Spread and/or the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 5(b)(iv); and

(II) certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or (in either case) the applicable Adjustment Spread.

The Fiscal Agent shall display such certificate at its offices, for inspection by the Noteholders at all reasonable times during normal business hours.

The Fiscal Agent shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) and without prejudice to the Fiscal Agent's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Fiscal Agent, the Calculation Agent, the Paying Agents and the Noteholders.

(F) Survival of Reference Rate

Without prejudice to the obligations of the Issuer under Condition 5(b)(iv)(A), (B), (C) and (D), the relevant Reference Rate specified hereon and the provisions provided for in Condition 5(b)(iii) will continue to apply unless and until a Benchmark Event has occurred.

(v) ***Benchmark Replacement (SOFR):*** The following provisions shall apply if Benchmark Event (SOFR) is specified as applicable in the relevant Pricing Supplement:

(A) Benchmark Replacement

If the Issuer or its designee determines on or prior to the relevant Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the-then current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates.

(B) Benchmark Replacement Conforming Changes

In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time. For the avoidance of doubt, any of the Agents shall, at the direction and expense of the Issuer, effect such consequential amendments to the Agency Agreement and these Conditions as may be required to give effect to this Condition 5(b)(v). Noteholders' consent shall not be required in connection with effecting any such changes, including the execution of any documents or any steps to be taken by any of the Agents (if required). Further, none of the Agents shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee with respect to any Benchmark Replacement or any other changes and shall be entitled to rely conclusively on any certifications provided to each of them in this regard.

(C) Decisions and Determinations

Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 5(b)(v), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection (i) will be conclusive and binding absent manifest error, (ii) will be made in the sole discretion of the Issuer or its designee, as applicable, and (iii) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party.

(D) *Definitions*

The following defined terms shall have the meanings set out below for purpose of Conditions 5(b)(iii)(C) and 5(b)(v):

"**Benchmark**" means, initially, the relevant SOFR Benchmark specified in the relevant Pricing Supplement; provided that if the Issuer or its designee determines on or prior to the Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the relevant Benchmark (including any daily published component used in the calculation thereof) or the then-current Benchmark, then "**Benchmark**" means the applicable Benchmark Replacement;

"**Benchmark Event**" means the occurrence of one or more of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

(I) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(II) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(III) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

"**Benchmark Replacement**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(I) the sum of:

(a) the alternate reference rate that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof); and

(b) the Benchmark Replacement Adjustment;

(II) the sum of:

(a) the ISDA Fallback Rate; and

(b) the Benchmark Replacement Adjustment; or

(III) the sum of:

(a) the alternate reference rate that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) giving due consideration to any industry-accepted reference rate as a replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) for U.S. dollar-denominated Floating Rate Notes at such time; and

(b) the Benchmark Replacement Adjustment;

"**Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(I) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(II) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or

(III) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark (including any daily published component used in the calculation thereof) with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated Floating Rate Notes at such time;

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determines is reasonably necessary);

"**Benchmark Replacement Date**" means the earliest to occur of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

(I) in the case of sub-paragraph (I) or (II) of the definition of "Benchmark Event", the later of:

(i) the date of the public statement or publication of information referenced therein; and

(ii) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or

(II) in the case of sub-paragraph (III) of the definition of "Benchmark Event", the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

"**designee**" means a designee as selected and separately appointed by the Issuer in writing;

"**ISDA Definitions**" means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time;

"**ISDA Fallback Adjustment**" means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

"**ISDA Fallback Rate**" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark (including any daily published component used in the calculation thereof) for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

"**Reference Time**" with respect to any determination of the Benchmark means (1) if the Benchmark is the SOFR Benchmark, the SOFR Determination Time (where Simple SOFR Average or Compounded Daily SOFR is specified in the relevant Pricing Supplement) or SOFR Index Determination Time (where SOFR

Compounded Index is specified in the relevant Pricing Supplement); or (2) if the Benchmark is not the SOFR Benchmark, the time determined by the Issuer or its designee after giving effect to the Benchmark Replacement Conforming Changes;

"**Relevant Governmental Body**" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto; and

"**Unadjusted Benchmark Replacement**" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(vi) ***Linear Interpolation***: Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate. For the purposes of this Condition 5(b)(vi), "**Applicable Maturity**" means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(vii) ***Rate of Interest for Index Linked Interest Notes***: The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined by the Calculation Agent in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined by the Calculation Agent in the manner specified hereon.

(e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin subject always to the next paragraph.

(ii) If any Maximum Rate of Interest or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the countries of such currency.

(h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) **Definitions:** In these Conditions (other than in Conditions 5(b)(iii)(C) and 5(b)(v)), unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Adjustment Spread**" means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, in each case, to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body;

(ii) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Rate, the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines is recognised or acknowledged as being customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as applicable); or

(iii) if the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines that no such customary market usage is recognised or acknowledged, the Independent Adviser (in consultation with the Issuer) or the Issuer in its discretion (as applicable), determines (acting in a reasonable manner) to be appropriate, having regard to the objective, so far as is reasonably practicable in the circumstances and solely for the purposes of this sub-paragraph (III) only, of reducing or eliminating any economic prejudice or benefit (as the case may be) to the Noteholders and Couponholders.

"**Alternative Rate**" means the rate that the Independent Adviser or the Issuer (as applicable) determines has replaced the relevant Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest in respect of bonds denominated in the Specified Currency and of a comparable duration to the relevant Interest Period, or, if the Independent Adviser or the Issuer (as applicable) determines that there is no such rate, such other rate as the Independent Adviser or the Issuer (as applicable) determines in its discretion (acting in a reasonable manner) is most comparable to the relevant Reference Rate.

"**Benchmark Event**" means, in respect of a Reference Rate:

(i) such Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(ii) a public statement by the administrator of such Reference Rate that it has ceased or that it will cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate); or

(iii) a public statement by the supervisor of the administrator of such Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued; or

(iv) a public statement by the supervisor of the administrator of such Reference Rate as a consequence of which such Reference Rate will be prohibited from being used either generally, or in respect of the Notes, or that its use will be subject to restrictions or adverse consequences; or

(v) a public statement by the supervisor of the administrator of such Reference Rate that, in the view of such supervisor, such Reference Rate is or will be no longer representative of an underlying market or the methodology to calculate such Reference Rate has materially changed; or

(vi) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using such Reference Rate.

provided that the Benchmark Event shall be deemed to occur (a) in the case of sub-paragraphs (ii) and (iii) above, on the date of the cessation of publication of the Reference Rate or the discontinuation of the Reference Rate, as the case may be, (b) in the case of sub-paragraph (iv) above, on the date of the prohibition or restriction of use of the Reference Rate and (c) in the case of sub-paragraph (v) above, on the date with effect from which the Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

"**Business Day**" means:

(i) in the case of a currency other than euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

(iv) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)

(ii) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365

(iii) if "**Actual/365 (Sterling)**" is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366

(iv) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D2 will be 30.

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case Dl will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30.

(vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(viii) if "**Actual/Actual-ICMA**" is specified hereon,

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date.

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s).

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser of recognised standing and with appropriate expertise, in each case appointed by the Issuer at its own expense under Condition 5(b)(iv);

"**Interest Accrual Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Period Date and each successive period beginning on and including an Interest Period Date and ending on but excluding the next succeeding Interest Period Date.

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling, Hong Kong dollars or Renminbi other than where the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro nor Hong Kong dollars nor Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro or (iv) the day falling two Business Days in Hong Kong prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR.

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless otherwise specified hereon.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified hereon.

"**ISDA Benchmarks Supplement**" means the Benchmarks Supplement (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified hereon)) published by the International Swaps and Derivatives Association, Inc.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as amended and supplemented and published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon and, if specified as such hereon, as supplemented by the ISDA Benchmarks Supplement.

"**Margin**" has the meaning given in the relevant Pricing Supplement.

"**Rate of Interest**" means the rate of interest payable from time to time in respect of the Notes and that is either specified or calculated in accordance with the provisions hereon.

"**Reference Banks**" means, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market and, in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong inter-bank market and, in the case of a determination of CNH HIBOR, the principal Hong Kong office of four major banks dealing in Chinese Yuan in the Hong Kong inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

"**Reference Rate**" means the rate specified as such hereon.

"**Relevant Nominating Body**" means, in respect of a reference rate:

(i) the central bank for the currency to which the reference rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate; or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the reference rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate, (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon or such other page, section, caption, column or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

"**Successor Rate**" means the rate that the Independent Adviser or the Issuer (as applicable) determines is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor or replacement for that system.

(k) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) Redemption by Instalments and Final Redemption:

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) **Early Redemption:**

(i) *Zero Coupon Notes*:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes*: The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note) or, at any time, (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of any Tax Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment.

(d) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, all or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

(g) **Purchases:** The Issuer and its Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(h) **Cancellation:** All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 Payments and Talons

(a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be:

(i) in the case of a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank; and

(ii) in the case of Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

In this Condition 7(a), "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) **Registered Notes:**

(i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifth (in the case of Renminbi) and fifteenth (in the case of a currency other than Renminbi) day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made:

(x) in the case of a currency other than Renminbi, in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank; and

(y) in the case of Renminbi, by transfer to the registered account of the Noteholder.

In this Condition 7(b)(ii), "**registered account**" means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

(c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Payments subject to Fiscal Laws:** Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

(e) **Appointment of Agents:** The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, Transfer Agents and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the CMU Lodging and Paying Agent, any other Paying Agent, any Registrar, any Transfer Agent or any Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) the Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (iv) one or more Calculation Agent(s) where the Conditions so require, and (v) such other agents as may be required by any other stock exchange on which the Notes may be listed.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and Receipts and unexchanged Talons:**

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), the Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day; or

(iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the PRC or the relevant tax jurisdiction of the Issuer specified hereon (a "**Tax Jurisdiction**") or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer by or within the PRC up to and including the aggregate rate applicable on the date on which agreement is reached to issue the first Tranche of the Notes (the "**Applicable Rate**"), the Issuer will increase the amounts paid by it to the extent required so that the net amount received by Noteholders and Couponholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer is required to make a deduction or withholding (i) by or within the PRC in excess of the Applicable Rate or (ii) by or within a Tax Jurisdiction other than the PRC, the Issuer shall pay such additional amounts ("**Additional Tax Amounts**") as shall result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) Other connection: to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of the Note, Receipt or Coupon; or

(b) Presentation more than 30 days after the Relevant Date: presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Tax Amounts on presenting it for payment on the thirtieth day

As used in these Conditions, "**Relevant Date**" in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any Additional Tax Amounts that may be payable under this Condition 8.

9 Prescription

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

If any of the following events ("**Events of Default**") occurs and is continuing, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent:

(a) **Non-Payment:** the Issuer fails to pay the principal of or any interest on any of the Notes when due and such failure continues for a period of 30 days; or

(b) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Notes which default is incapable of remedy or is not remedied within 45 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or

(c) **Cross-Default:** (A) any other present or future Public External Indebtedness of the Issuer or any of its Subsidiaries becomes due and payable prior to its stated maturity by reason of any actual default, event of default or the like (howsoever described), or (B) any such Public External Indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, provided that the aggregate amount of the Public External Indebtedness in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds U.S.$25,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates); or

(d) **Insolvency:** the Issuer or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries; or

(e) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Subsidiaries, or the Issuer ceases or threaten to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or

(f) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes.

11 Meeting of Noteholders and Modifications

(a) **Meetings of Noteholders:** The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum Rate of Interest and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum Rate of Interest and/or Maximum Rate of Interest, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent. or at any adjourned meeting not less than 25 per cent. in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the Noteholders of not less than 90 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

(b) **Modification of Agency Agreement:** The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

12 Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (except for the first payment of interest and if applicable, the timing for notification to the NDRC, the approvals from CBIRC in the case the Notes is issued by the Bank and the filing of the Notes under the PBOC Circular. For the avoidance of doubt, references in these Conditions to "**Issue Date**" shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "**Notes**" shall be construed accordingly.

14 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Hong Kong. So long as the Notes are listed on The Stock Exchange of Hong Kong Limited and the rules of that Exchange so require, notices to holders of the Notes shall also be published in a daily newspaper with general circulation in Hong Kong (which is expected to be the South China Morning Post in Hong Kong). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 14.

15 Currency Indemnity

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the currency of payment under the relevant Note, Coupon or Receipt that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it shall be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt or any other judgment or order.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law and Jurisdiction

(a) **Governing Law:** The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to the Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the holder of the Notes, Receipts, Coupons and Talons and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) **Service of Process:** The Issuer irrevocably agrees to receive service of process at its branch, Agricultural Bank of China London Branch's registered office at 7th Floor, 1 Bartholomew Lane, London EC2N 2AX in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 14. Nothing shall affect the right to serve process in any manner permitted by law.

THE GLOBAL CERTIFICATE

Initial Issue of Notes

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") or a sub-custodian for the HKMA as operator of the CMU.

Upon the initial deposit of a Global Note with the Common Depositary or with a sub-custodian for the HKMA as operator of the CMU or registration of Registered Notes in the name of (i) any nominee for Euroclear and Clearstream, Luxembourg or (ii) the HKMA and delivery of the relative Global Certificate to the Common Depositary or the sub-custodian for the HKMA as operator of the CMU (as the case may be), Euroclear or Clearstream, Luxembourg or the CMU (as the case may be) will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

Relationship of Accountholders with Clearing Systems

Save as provided in the following paragraph, each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules shall be the only person(s) entitled (or in the case of Registered Notes, directed or deemed by the CMU as entitled) to receive payments in respect of Notes represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

Exchange

Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the "C Rules" or in a transaction to which TEFRA is not applicable (as to which, see "*Summary of the Programme – Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

The CMU may require that any such exchange for a permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Issue Position Report (as defined in the rules of the CMU) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) have so certified.

Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under "*Partial Exchange of Permanent Global Notes*" below, in part for Definitive Notes or, in the case of (i) below, Registered Notes:

(i) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or the CMU or any other clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or

(ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Global Certificates

If the relevant Pricing Supplement states that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or the CMU or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2 may only be made in part:

(iii) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;

(iv) if principal in respect of any Notes is not paid when due; or

(v) with the prior consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement) relating to Partly Paid Notes.

Delivery of Notes

On or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent). In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

"**Exchange Date**" means (i) in relation to an exchange of a temporary Global Note to a permanent Global Note, the day falling after the expiry of 40 days after its issue date; or (ii) in relation to an exchange of a permanent Global Note to a Definitive Note, a day falling not less than 60 days or in the case of exchange following failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the cities in which the relevant clearing systems are located.

Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Notes contain provisions that apply to the Notes that they represent, some of which modify the effect of the Conditions set out in this Offering Circular. The following is a summary of certain of those provisions:

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note (except with respect to Global Note held through the CMU) will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes.

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

In respect of a Global Note or Global Certificate held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note are credited (as set out in the records of the CMU) at the close of business on the Clearing System Business Day immediately prior to the date for payment and, save in the case of final payment, no presentation of the relevant bearer Global Note or Global Certificate shall be required for such purpose. For the purposes of this paragraph, "**Clearing System Business Day**" means a day on which the CMU is operating and open for business.

Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note or a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

Cancellation

Cancellation of any Note represented by a permanent Global Note or Global Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note or Global Certificate.

Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer or any of its respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

The Option of the Issuer

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain, in the case of Bearer Notes, the certificate numbers of Notes drawn or, in the case of Registered Notes, the holder of the Notes in respect of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg, the CMU or any other clearing system (as the case may be).

Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note (in accordance with the standard procedures of the relevant clearing system) giving notice to the Fiscal Agent or (in respect of Notes represented by a Global Certificate) the Registrar or Transfer Agent or (in respect of Notes lodged with the CMU) the CMU Lodging and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the permanent Global Note or Global Certificate to the Fiscal Agent, the relevant Registrar, a Transfer Agent or the CMU Lodging and Paying Agent (or, in each case, to a Paying Agent acting on their behalf), as the case may be, for notation.

Notices

So long as any Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream, Luxembourg or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate or (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the CMU in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate, and any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is delivered to the CMU.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes or Global Certificates. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Pricing Supplement dated [•]
Agricultural Bank of China Limited [[•] Branch]

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]
under the U.S.$15,000,000,000 Medium Term Note Programme

[Notification under Section 309B(1)(c) under the SFA: In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [prescribed capital markets products]/[capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded]/[Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.)][1]

PRIIPs REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; [or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**")]. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPs REGULATION – PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; [or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**")]. Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

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1 For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

[MiFID II product governance/Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")][MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market.*] Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[UK MiFIR product governance/Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market.*] Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[*The following language applies if the Notes are to be listed on The Stock Exchange of Hong Kong Limited.*

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Professional Investors**")) only.

The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

This document (read together with the Offering Circular) includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.]

The document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated [•] [and the Supplemental Offering Circular dated [*date*]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement [,/and the Offering Circular [and the Supplemental Offering Circular].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated [•]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated [•] [and the supplemental Offering Circular dated [*date*]], save in respect of the Conditions which are extracted from the Offering Circular dated [•] and are attached hereto.

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Pricing Supplement.]

1	Issuer:		Agricultural Bank of China Limited [[•] Branch] [*Address*]
2	[(i)]	Series Number:	[•]
	[(ii)	Tranche Number (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)]	[•]
	[(iii)]	Tax Jurisdiction	[•]
3	Specified Currency or Currencies:		[•]
4	Aggregate Nominal Amount:		
	(i)	Series:	[•]
	[(ii)	Tranche:	[•]]
5	[(i)]	Issue Price:	[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] *(in the case of fungible issues only, if applicable)*]
	[(ii)	Net proceeds:	[•] *(Required only for listed issues)*]
6	(i)	Specified Denominations:	[•][(1)]
	(ii)	Calculation Amount[(4)]:	[•]

7	(i) Issue Date:	[•]
	(ii) Interest Commencement Date:	[*Specify*/Issue date/Not Applicable]
8	Maturity Date:	[specify date *(for Fixed Rate Notes)* or *(for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*][(2)]
9	Interest Basis:	[[•] per cent. Fixed Rate] [*specify reference rate*] +/– [•] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*specify*)] (further particulars specified below)
10	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*specify*)]
11	Change of Interest or Redemption/ Payment Basis:	*[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
12	Put/Call Options:	[Put] [Call] *(NB: HKMA approval will be required in the case of Subordinated Notes)* [(further particulars specified below)]
13	Status of the Notes:	[Senior Notes/Subordinated Notes]
14	[NDRC approval(s)/reporting:]	The [Pre-Issuance NDRC Registration Certificate/NDRC Quota Letter] was issued on [•] The requisite information and documents in connection with the Notes shall be provided to the NDRC on or before [•]
15	Listing:	[•]/Other (*specify*)/None]
16	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17		Fixed Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i)	Rate [(s)] of Interest:	[•] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii)	Interest Payment Date(s):	[•] in each year[(3)] [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]*/not adjusted]
	(iii)	Fixed Coupon Amount[(s)]:	[•] per Calculation Amount[(4)]
	(iv)	Broken Amount:	[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•] *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)] and the Interest Payment Date(s) to which they relate]*
	(v)	Day Count Fraction (Condition 5(j)):	[30/360/Actual/Actual (ICMA/ISDA)/Other] *(Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in US dollars or Hong Kong dollars, unless the client requests otherwise)*
	(vi)	Determination Date(s) (Condition 5(j)):	[•] in each year. *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]*[(5)]
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
18		Floating Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Interest Period(s):	[•]
	(ii)	Specified Interest Payment Dates:	[•]
	(iii)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
	(iv)	Business Centre(s) (Condition 5(j)):	[•]

(v)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/Screen Rate Determination (SOFR)/ISDA Determination/other *(give details)*]
(vi)	Interest Period Date(s):	[Not Applicable/specify dates] *(Not applicable unless different from Interest Payment Date)*
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[•]
(viii)	Screen Rate Determination (Condition 5(b)(iii)(B)):	
	– Reference Rate:	[EURIBOR/HIBOR/CNH HIBOR, *Specify reference rate*]
	– Interest Determination Date:	*[[•] [TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]]*
	– Relevant Screen Page:	[•]
(ix)	Screen Rate Determination (SOFR) (Condition 5(b)(iii)(C)):	
	– Reference Rate:	SOFR Benchmark – [Simple SOFR Average/ Compounded Daily SOFR/SOFR Compounded Index]
	– Compounded Daily SOFR Method:	[Not Applicable/SOFR Observation Lag/SOFR Observation Shift/SOFR Payment Delay/SOFR Lockout – *used for Compounded Daily SOFR only*]
	– Interest Determination Date(s):	[The [•] U.S. Government Securities Business Day prior to the last day of each Interest Accrual Period – *only applicable in the case of Simple SOFR Average/SOFR Observation Lag/SOFR Observation Shift/SOFR Lockout/SOFR Compounded Index*] [The Interest Period Date at the end of each Interest Period, provided that the Interest Determination Date with respect to the final Interest Accrual Period will be the U.S. Government Securities Business Day immediately following the relevant SOFR Rate Cut-Off Date – *only applicable in the case of SOFR Payment Delay*]

–	Lookback Days:	[[•] U.S. Government Securities Business Days – *used for SOFR Lag only*]/[Not Applicable]
–	SOFR Observation Shift Days:	[[•] U.S. Government Securities Business Days – *used for the SOFR Observation Shift or SOFR Compounded Index only*]/[Not Applicable]
–	SOFR Rate Cut-Off Date:	[The date falling [•] Business Days prior to the end of each Interest Accrual Period, the Maturity Date or the date fixed for redemption, as applicable – *used for only Simple SOFR Average (if applicable), Compounded Daily SOFR (if applicable) – SOFR Payment Delay or SOFR Lockout only*]/[Not Applicable]
–	Interest Payment Delay Days:	[•] Business Days – *used for SOFR Payment Delay only*]/[Not Applicable]
(x)	ISDA Determination (Condition 5(b)(iii)(A)):	
–	Floating Rate Option:	[•]
–	Designated Maturity:	[•]
–	Reset Date:	[•]
–	ISDA Definitions: (if different from those set out in the Conditions)	[2000/2006]
–	ISDA Benchmarks Supplement:	[Applicable/Not Applicable]
(xi)	Linear Interpolation:	Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Accrual Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
(xii)	Margin(s):	[+/–] [•] per cent. per annum
(xiii)	Minimum Rate of Interest:	[•] per cent. per annum
(xiv)	Maximum Rate of Interest:	[•] per cent. per annum
(xv)	Day Count Fraction (Condition 5(j)):	[•]
(xvi)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[Benchmark Event/Benchmark Event (SOFR)/ *specify if fallback provisions different from those set out in the Conditions*]

19	Zero Coupon Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Amortisation Yield (Condition 6(b)):	[•] per cent. per annum
	(ii)	Day Count Fraction (Condition 5(j)):	[•]
	(iii)	Any other formula/basis of determining amount payable:	[•]
20	Index Linked Interest Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Index/Formula:	[Give or annex details]
	(ii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[•]
	(iii)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[•]
	(iv)	Interest Period(s):	[•]
	(v)	Specified Interest Payment Dates:	[•]
	(vi)	Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
	(vii)	Business Centre(s) (Condition 5(j)):	[•]
	(viii)	Minimum Rate of Interest:	[•] per cent. per annum
	(ix)	Maximum Rate of Interest:	[•] per cent. per annum
	(x)	Day Count Fraction (Condition 5(j)):	[•]
21	Dual Currency Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate of Exchange/Method of calculating Rate of Exchange:	[Give details]
	(ii)	Party, if any, responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[•]

	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[•]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[•]
	(v) Day Count Fraction (Condition 5(j)):	[•]

PROVISIONS RELATING TO REDEMPTION

22	Call Option	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Optional Redemption Date(s):	[•]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[•] per Calculation Amount
	(b) Maximum Redemption Amount:	[•] per Calculation Amount
	(iv) Notice period:	[•]
23	Put Option	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Optional Redemption Date(s):	[•]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii) Notice period:	[•]
24	Final Redemption Amount of each Note	[•] per Calculation Amount
25	Early Redemption Amount	
	(i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10(a) or 10(b)) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[•]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26	Form of Notes:	[Bearer Notes/Registered Notes] *[Delete as appropriate]* [temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note] [temporary Global Note exchangeable for Definitive Notes on [•] days' notice] [permanent Global Note/Certificate exchangeable for Definitive Notes/Certificates in the limited circumstances specified in the permanent Global Note/Certificate]
27	Financial Centre(s) (Condition 7[(h)]) or other special provisions relating to payment dates:	[Not Applicable/*Give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 16(ii), 17(iv) and 19(vii) relate*]
28	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
29	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*]
30	Details relating to Instalment Notes:	[Not Applicable/*give details*]
	(i) Instalment Amount(s):	[•]
	(ii) Instalment Date(s):	[•]
	(iii) Minimum Instalment Amount:	[•]
	(iv) Maximum Instalment Amount:	[•]
31	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
32	Consolidation provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
33	Other terms or special conditions:	[Not Applicable/*give details*][(7)]

DISTRIBUTION

34	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilisation Manager (if any):	[Not Applicable/*give name*]
35	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
36	U.S. Selling Restrictions	Reg. S Category 2; TEFRA D/TEFRA C/TEFRA Not Applicable]
37	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

38	ISIN Code:	[•]
39	Common Code:	[•]
40	CMU Instrument Number:	[•]
41	Legal Entity Identifier:	[•]
42	Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and the CMU Service and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
43	Delivery:	Delivery [against/free of] payment
44	Additional Paying Agents (if any):	[•]
	GENERAL	
45	The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [•], producing a sum of (for Notes not denominated in U.S. dollars):	[Not Applicable/U.S.$[•]]
46	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	[Not Applicable/Luxembourg]
47	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	[Not Applicable/Hong Kong]

48	Private Bank Rebate:	[A rebate of [•] basis points is being offered by the Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of this offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate.]/[Not Applicable]
49	Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent:	[*Include relevant contact email addresses of the Overall Coordinators where the underlying investor information should be sent – OCs to provide*]/[Not Applicable]
50	Marketing and Investor Targeting Strategy	[*if different from the programme OC*]

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$[•] Medium Term Note Programme of Agricultural Bank of China Limited [[•] Branch.]

[STABILISING

In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in this Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.]

[MATERIAL ADVERSE CHANGE STATEMENT

[Except as disclosed in this document, there/There][(8)] has been no significant change in the financial or trading position of the Issuer or of the Group since *[insert date of last audited accounts or interim accounts (if later)]* and no material adverse change in the financial position or prospects of the Issuer or of the Group since *[insert date of last published annual accounts]*.]

[USE OF PROCEEDS

[*To be specified if different from the use of proceeds in the Offering Circular*].]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

[If the Issuer is not the Hong Kong branch of Agricultural Bank of China Limited, by signing this Pricing Supplement and delivering it to the Fiscal Agent, the Issuer agrees to become a party to the Agency Agreement in place of the Hong Kong Branch (as defined therein).]

Signed on behalf of the Issuer:

By: ____________________________
Duly authorised

Notes:

(1) Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording set out in the Guidance Note published by ICMA in November 2006 (or its replacement from time to time) as follows: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000".

(2) Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

(3) Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day."

(4) For CMU: For Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 in the case of Renminbi denominated Fixed Rate Notes or to the nearest HK$0.01, HK$0.005 in the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards."

For Euroclear/Clearstream: For Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.000001, CNY0.00000005 in the case of Renminbi denominated Fixed Rate Notes or to the nearest HK$0.0000001, HK$0.00000005 in the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards."

(5) Only to be completed for an issue where the Day Count Fraction is Actual/Actual-ICMA.

(6) If the temporary Global Note is exchangeable for definitives at the option of the holder, the Notes shall be tradeable only in amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided in paragraph 6 and multiples thereof.

(7) If full terms and conditions are to be used, please add the following here:

"The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary."

The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the Pricing Supplement.

(8) If any change is disclosed in the Pricing Supplement, it will require approval by the Stock Exchange(s). Consideration should be given as to whether or not such disclosure should be made by means of a supplemental Offering Circular rather than in a Pricing Supplement.

CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of the Bank

As at 30 June 2022, the Bank had an authorised share capital of CNY350.0 billion divided into 30.7 million H shares of CNY1.00 each and 319.2 million A shares of CNY1.00 each. As at the same date, the Bank had a total of 487,509 shareholders, including 21,270 holders of H shares and 466,239 holders of A shares.

The following table sets out the Group's consolidated capitalisation and indebtedness as at 30 June 2022. This table should be read in conjunction with the 2022 Interim Financial Statements, including the notes thereto, included elsewhere in this Offering Circular.

	As at 30 June 2022	
	Actual	
	(Unaudited) *CNY* *(in millions)*	*(Unaudited)* *U.S.$*(1) *(in millions)*
Debt:(2)		
Bonds issued	494,049	73,760
Other debt securities issued	1,028,581	153,563
Total debt	1,522,630	227,323
Equity:		
Ordinary shares	349,983	52,251
Preference shares	79,899	11,929
Perpetual bonds	329,970	49,263
Capital reserve	173,556	25,911
Investment revaluation reserve	36,130	5,394
Surplus reserve	220,814	32,967
General reserve	385,387	57,537
Retained earnings	943,837	140,911
Foreign currency translation reserve	(80)	(12)
Non-controlling interests	6,717	1,003
Total equity	2,526,213	377,154
Total capitalisation(3)	4,048,843	604,476

Notes:

(1) The translation of Renminbi amounts into U.S. dollar amounts has been made at the rate of CNY6.6981 to U.S.$1.00, which is the exchange rate set forth in the H.10 weekly statistical release of the Board of Governors or the Federal Reserve System of the United States on 30 June 2022.

(2) As at 30 June 2022, in addition to debt, the Bank had other borrowed funds and liabilities, including borrowings from central banks, due to customers, deposits and placements from banks and other financial institutions, financial liabilities held for trading, derivative financial liabilities, financial assets sold under repurchase agreements and financial liabilities at fair value through profit or loss. See the Bank's reviewed condensed consolidated interim financial statements as at 30 June 2022 and the related notes attached as F-pages to this Offering Circular for further details.

(3) Total capitalisation equals total debt plus total equity.

There has been no material adverse change in the total capitalisation and indebtedness of the Group, on a consolidated basis, since 30 June 2022.

USE OF PROCEEDS

Unless otherwise specified in the Pricing Supplement, the net proceeds of any Notes issued under the Programme shall be used for the Issuer's general corporate purposes.

DESCRIPTION OF THE BANK

OVERVIEW

The Bank is a leading commercial bank in China in terms of total assets, total loans and total deposits. As at 31 December 2019, 2020 and 2021, and 30 June 2022, the Bank had total assets of CNY24,877.5 billion, CNY27,205.0 billion, CNY29,069.2 billion, and CNY32,426.4 billion, respectively, and total loans and advances to customers before allowance for impairment losses of CNY13,360.3 billion, CNY15,170.9 billion, CNY17,175.1 billion and CNY18,813.6 billion, respectively. The Bank's total deposits due to customers (including accrued interest) amounted to CNY18,849.2 billion, CNY20,372.9 billion, CNY21,907.1 billion and CNY24,119.9 billion as at the same dates respectively.

The Bank has one of the leading domestic distribution networks among the Large Commercial Banks in terms of the number of branch outlets. As at 30 June 2022, it had a total number of 22,804 domestic branches. Leveraging its extensive network, the Bank provides a wide range of banking products and services to its corporate and retail customers in China.

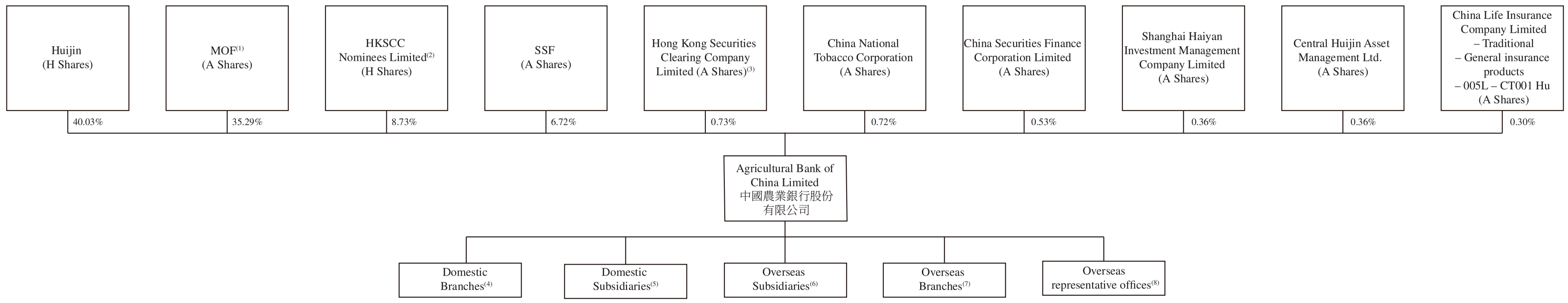
As a leading bank in China's Urban Areas, the Bank has benefited from China's strong economic growth in recent years, and by leveraging its extensive distribution network and large customer base, the Bank was able to further strengthen its market position in the Urban Areas.

The Bank is a leading provider of financial services in China's vast, fast-developing County Areas, with the largest number of domestic branch outlets among the Large Commercial Banks. The Bank refers to such banking business as the "County Area Banking Business"or "Sannong Banking Business". It believes that the established market leadership and vast distribution network of its County Area Banking Business enable it to continue to take advantage of the various growth opportunities arising from the rapid urbanisation and favourable economic and policy developments in the County Areas. As at 31 December 2019, 2020 and 2021, and 30 June 2022, the Bank's loans and advances in the County Areas totalled CNY4,552.8 billion, CNY5,305.3 billion, CNY6,218.3 billion and CNY6,935.9 billion, respectively. The deposits taken by the Bank in the County Areas totalled CNY7,960.6 billion, CNY8,754.3 billion, CNY9,413.4 billion and CNY10,357.8 billion as at the same dates, respectively.

The Bank believes that "Agricultural Bank of China"("中國農業銀行") is one of the most recognised financial services brands in China. The Financial Stability Board has included the Bank in the list of Global Systemically Important Banks for the past eight consecutive years since 2014. In 2021, the Bank ranked No. 29 in the Fortune's Global 500, and ranked No. 3 in *The Banker's* "Top 1000 World Banks" list in terms of tier 1 capital. As at 31 December 2021, Standard & Poor's affirmed long-/short-term issuer credit ratings of the Bank at A/A-1 with stable outlook, Moody's affirmed long-/short-term bank deposit ratings of the Bank at A1/P-1 with stable outlook and Fitch Ratings affirmed long-/short-term issuer default ratings of the Bank at A/F1+ with stable outlook.

Headquartered in Beijing with a nationwide distribution network, as at 30 June 2022, the Bank had 13 overseas branches in Hong Kong, Singapore, Seoul, New York, Dubai International Financial Center, Tokyo, Frankfurt, Sydney, Luxembourg, Dubai, London, Macao and Hanoi, as well as four representative offices in Vancouver, Chinese Taipei, Sao Paulo and Dushanbe. In addition, the Bank has a number of wholly-owned overseas subsidiaries, including ABC International Holdings Limited and China Agricultural Finance Co., Ltd.

The following chart sets out the Bank's simplified group structure as at 30 June 2022:



Notes:

(1) Pursuant to the Notice on the Full Implementation of Transferring Part of State-owned Capital to Replenish Social Security Funds (Cai Zi [2019] No. 49) jointly issued by the MOF, Ministry of Human Resources and Social Security, State-owned Assets Supervision and Administration Commission of the State Council, State Taxation Administration, and the CSRC, the MOF transferred 13,723,909,471 shares to the state-owned capital transfer account of the SSF on one-off basis. In compliance with the Notice of the State Council on Printing and Distributing the Implementation Plan of Transferring Part of State-owned Capital to Replenish Social Security Funds (Guo Fa [2017] No. 49), the SSF shall be obligated to observe a lock-up period not less than three years from the date on which the shares are credited to the account.

(2) The total number of shares held by HKSCC Nominees Limited represents the number of H Shares held by it in aggregate as a nominee on behalf of all institutional and individual investors registered with it as at 30 June 2022.

(3) The number of shares held by Hong Kong Securities Clearing Company Limited represents the A Shares (northbound shares of Shanghai-Hong Kong Stock Connect) held by it as a nominee for and on behalf of investors from Hong Kong SAR and overseas.

(4) Includes the Head Office, Business Department of the Head Office, four specialized institutions managed by the Head Office, four training institutes, 37 tier-1 branches (including Xinjiang Production and Construction Corps Branch and five branches directly managed by the Head Office), 405 tier-2 branches (including business departments of branches in capital cities of provinces and business departments of provincial branches), 3,340 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the Head Office and business departments of tier-2 branches), 18,962 foundation-level branch outlets (including 15,430 tier-2 sub-branches) and 50 other establishments.

(5) The Bank's major domestic subsidiaries include ABC Financial Leasing Co., Ltd., ABC-CA Fund Management Co., Ltd., ABC Hexigten Rural Bank Limited, ABC Hubei Hanchuan Rural Bank Limited, ABC Jixi Rural Bank Limited, ABC Ansai Rural Bank Limited, ABC Zhejiang Yongkang Rural Bank Limited, ABC Xiamen Tong'an Rural Bank Limited, ABC Life Insurance Co., Ltd., ABC Financial Asset Investment Co., Ltd. and Agricultural Bank of China Wealth Management Co., Ltd..

(6) The Bank's major overseas subsidiaries include ABC International Holdings Limited, China Agricultural Finance Co., Ltd., Agricultural Bank of China (Luxembourg) Limited and Agricultural Bank of China (Moscow) Limited. In addition, the Bank owns Agricultural Bank of China (UK) Limited in the United Kingdom. After the opening of the Bank's London branch, the financial license of Agricultural Bank of China (UK) Limited was revoked, and the Bank has been undertaking the procedures needed to dissolve Agricultural Bank of China (UK) Limited.

(7) Hong Kong, Singapore, Seoul, New York, Dubai International Financial Center, Tokyo, Frankfurt, Sydney, Luxemburg, Dubai, London, Macau and Hanoi branches.

(8) Vancouver, Chinese Taipei, Sao Paulo and Dushanbe representative offices.

RECENT DEVELOPMENT

Issuance Plan of Write-down Undated Additional Tier 1 Capital Bonds of the Bank

On 28 December 2022, the Bank's board resolved to approve the issuance plan of write-down undated additional tier 1 capital bonds in the total amount of up to CNY200 billion. Such bonds are to be issued in batch in the domestic market subject to capital needs and market conditions, and if issued, will continue to be outstanding so long as the Bank's business continues to operate. The proceeds will be used to replenish the Bank's additional tier 1 capital. This proposal will be further submitted to the Bank's shareholders' general meeting for approval. The validity period of this board resolution will be from the date of approval by the shareholders' general meeting to 31 December 2024.

2022 Third Quarterly Report

The Bank published its consolidated quarterly interim reports in respect of the three months ended 30 September (the "**2022 Third Quarterly Report**") on 28 October 2022. The 2022 Third Quarterly Report contains the unaudited and unreviewed financial information of the Bank and its subsidiaries for the third quarter ended 30 September 2022, prepared under IFRS. The 2022 Third Quarterly Report is incorporated by reference to the Offering Circular and can be found on the website of the HKSE.

The 2022 Third Quarterly Report has not been and will not be audited or reviewed by the Bank's independent auditors. The 2022 Third Quarterly Report should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. None of the Dealers nor any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them make any representation, or warranty, express or implied, regarding the sufficiency of the 2022 Third Quarterly Report for an assessment of the Bank's financial condition, results of operations and results. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operation. The 2022 Third Quarterly Report should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

Covid-19

In 2021, for retail loan customers who were unable to repay their loans on time due to ongoing mandatory lockdown orders and other compulsory COVID-19 prevention measures, the Bank delayed the repayment time by setting a reasonable grace period. The customers who repaid their loans within the grace period were not included in the list of defaulting customers. In addition, in areas affected by COVID-19 and other natural disasters, the Bank launched a "green channel" to provide one-click access to manual services through voice and text channels, and provided services for applying for grace periods for individual loan repayment. Leveraging the advantage of new media customer service, the Bank provided customers with high-quality and convenient online service experience.

THE BANK'S COMPETITIVE STRENGTHS

Balanced Urban and Rural Growth Strategy and improved financial services provided to Sannong and the real economy

With a significant market share and a broad presence in both Urban Areas and County Areas, the Bank is well-positioned to capitalise on China's future growth by providing comprehensive products and services to its customers through an integrated platform that covers both Urban Areas and County Areas. The Bank has also strengthened innovation with respect to serving Sannong through internet finance and accelerated the development and promotion of its e-commerce platform.

For the six months ended 30 June 2022, Urban Areas and County Areas contributed 58.7 per cent. and 41.3 per cent. of the Bank's operating income, respectively. For the year ended 31 December 2021, Urban Areas and County Areas contributed 59.1 per cent. and 40.9 per cent. of the Bank's operating income, respectively. The Bank endeavours to maintain balanced development in both Urban Areas and County Areas to minimise volatility to its business arising from different policies applying to Urban Areas and County Areas.

Rapid urbanisation, increasing business flows between the Urban Areas and the County Areas and the continued shift to a more consumption-driven economy have stimulated strong growth in both Urban Areas and County Areas. The economic development in the County Areas has spurred rapid growth of the banking industry in these areas. Benefitting from its established leadership in both Urban Areas and County Areas, the Bank believes that it is well-positioned to capitalise on China's future growth in both Urban Areas and County Areas, and to broaden and deepen financial services for Sannong.

Extensive nationwide branch outlet network complemented by a multi-channel electronic banking system

The Bank has a nationwide distribution network with a leading number of branch outlets among the Large Commercial Banks. As at 30 June 2022, the Bank had a total number of 22,804 domestic branch outlets. It maintains a strong presence and extensive network in economically developed areas. Such an extensive network enables the Bank to diversify risk and minimises potential adverse influence of regional economic risk on the overall business of the Bank. The Bank is well-positioned to benefit from lower penetration, less competition and higher loan pricing power in rural areas, which complements its urban banking business in economically developed areas.

As an important complement to and extension of its nationwide distribution network, the Bank has a multi-channel electronic banking transaction system consisting primarily of ATMs, Internet banking, telephone banking, mobile phone banking and non-cash transaction terminals. The Bank also has a leading electronic customer service system with Internet portals and a call centre which operates 24 hours a day, seven days a week.

The Bank's extensive nationwide branch outlet network, together with its multi-channel electronic banking system, provides it with a strong sales platform, which enables it to cross-sell its products and deliver high-quality, convenient and comprehensive services. It has also allowed the Bank to establish a leading position in major product and service offerings including deposits, lending, settlement, custody, agency services and bank cards.

Large and diversified customer base providing significant growth potential

Through the Bank's extensive multi-channel distribution network, the Bank serves a large and diversified corporate and retail customer base.

As at 30 June 2022, the Bank had 9,051.0 thousand corporate banking customers, of which 396.2 thousand had outstanding loans from the Bank. As at the same date, the Bank also had 9,549.4 thousand Renminbi-denominated corporate settlement accounts. In addition to expanding its customer base, the Bank has focused on optimising its customer base by developing relationships with large industry-leading companies, financial institutions and government agencies. Over the years, the Bank has established extensive strategic cooperative relationships with major enterprises in the leading business sectors in China, including major power grid companies, major power generation companies, major petroleum companies and major telecommunication operators. Such cooperation substantially extended the Bank's customer base to the leading enterprises of the energy, telecommunication, aviation, steel, automobile, chemical and electronic industries. The Bank has also established extensive strategic cooperative relationships with companies in the financial services sector as well as the central government departments and provincial governments. As at 30 June 2022, the Bank had 598.2 thousand institutional customers, and the number of contracted customers for the Bank's third-party depositary services amounted to 62.1 million. The Bank continues to focus on expanding its institutional banking client base and strengthening its cooperation with other banks, securities firms, futures brokerage companies, governments and insurance companies.

The Bank believes that the demand for emerging financial services, such as wealth management, bancassurance and investment, will increase significantly as its customers' personal wealth continues to grow. The Bank believes that its large and diversified customer base will provide significant business growth opportunities, which will in turn enhance its competitive position across various business segments.

Strong deposit base providing stable and low-cost funding

The Bank believes that its large distribution network has enabled it to provide convenient services to its broad customer base across China and establish a strong brand recognition among its customers. The Bank has one of the largest customer deposit bases among all commercial banks in China, with deposits due to customers (including accrued interest) amounting to CNY24,119.9 billion as at 30 June 2022, representing a substantial market share among all PRC banking institutions. The Bank believes that its large deposit base provides it with access to stable source of funding at a relatively low cost, which enables it to grow its loan business and improve its financial results.

The Bank had CNY14,189.8 billion in domestic retail deposits as at 30 June 2022. At the same date, the Bank's domestic retail deposits accounted for 59.6 per cent. of its total deposits. This is a result of higher residential savings rate in the County Areas and the Bank's extensive branch network. The Bank believes that its advantage in the retail deposit base will be further strengthened due to the increasing wealth of the population in the County Areas through enlarged government fiscal subsidies to support agricultural development. In addition, the Bank has a higher percentage of demand deposits within its deposit mix. Domestic demand deposits accounted for 23.8 per cent. of its total deposits at 30 June 2022. Having deposits primarily consisting of demand deposits enables the Bank to maintain a lower cost of deposits compared to other commercial banks in China. For the years ended 31 December 2019, 2020 and 2021, and for the six months ended 30 June 2021 and 2022, the Bank's average cost of deposits was 1.51 per cent., 1.46 per cent., 1.55 per cent., 1.59 per cent. and 1.67 per cent., respectively.

Fast growing fee- and commission-based business

It has been an important strategic focus for the Bank to grow its fee- and commission-based business. The Bank's integrated branch and electronic banking network and increasingly diversified product and service portfolio have enabled it to successfully develop its fee- and commission-based business. For the six months ended 30 June 2021 and 2022, the Bank's net fee and commission income was CNY48.2 billion and CNY49.5 billion, respectively. For the years ended 31 December 2020 and 2021, the Bank's net fee and commission income was CNY74.5 billion and CNY80.3 billion, respectively. Through product innovation, resources sharing among the Bank's different business segments and cross-selling efforts, the Bank has been able to maintain its strengths in the settlement, asset custody, bank cards and bancassurance businesses.

As at 30 June 2022, the Bank's assets under custody reached CNY13,567.8 billion, among which, the value of its insurance assets under custody was one of the highest among all commercial banks in China. In addition, the Bank had a consistently high ranking in terms of the total number of bank cards issued as at the end of each year from 2006 to 2020. The Bank had issued 1,052 million debit cards as at 30 June 2022 and its "Kins Card"("金穗卡") brand is widely recognised in the PRC. In addition, the Bank launched the "Jinsui Freight Card" to support the smoothness of freight logistics with financial services during the first half of 2022. In the first half of 2022, the total premium income generated by the Bank's personal insurance business reached CNY26,252.0 million, representing a year-on-year growth of 13.4 per cent. Among them, regular premium reached CNY4,068.0 million, representing a year-on-year growth of 48.4 per cent. Recently, the Bank's "*ABC Quick E-Compensation*" won the "*Model Case of Customer Service in Insurance Industry*" award presented by China Banking and Insurance News.

Furthermore, given the Bank's large and diversified customer base, it has experienced a rapid growth in certain new business areas. For the six months ended 30 June 2022, net fees and commissions income from its electronic banking services and agency services reached CNY13.8 billion and CNY14.1 billion, respectively, representing a decrease of 10.7 per cent. and increase of 0.9 per cent. as compared to the first half of 2021, respectively. For the year ended 31 December 2021, net fees and commissions income from its electronic banking service and agency service reached CNY30.5 billion and CNY23.7 billion, respectively, representing an increase of 16.5 per cent and 12.5 per cent. over the year ended 31 December 2020, respectively. In addition, the Bank has also taken initiatives in new business areas that it believes present strong growth potential, such as asset management, wealth management and investment banking. The Bank was one of the first banks to offer CBRC-approved Renminbi-denominated wealth management products. In addition, the Bank was one of the first banks licensed to provide custodian services to mutual funds.

Continuously enhanced risk management and internal control capabilities

In recent years, the Bank has continued to improve its comprehensive risk management system, prudently prevented and defused risks in key areas, and kept all kinds of risks under control. The Bank has conducted a business risk reassessment and revised the Group's statement of risk appetite and overall risk management strategies. The Bank has carried out loan risk classification thoroughly and constantly strengthened the recovery and disposal of non-performing assets, maintaining asset quality stable for the Bank. The Bank has optimized the market risk management system and strengthened the monitoring of market risk exposure limit, maintaining its overall market risk stable. In addition, the Bank has strengthened the operational risk management and control, enhanced the construction of risk prevention and control system, and focused on IT risk management and business continuity management. The Bank has also strengthened the management of financial product innovation, implemented relevant institutional requirements for product innovation management, and standardized the risk assessment and review process for product innovation. Furthermore, the Bank has enhanced the development of risk data marts and risk management information systems, and promoted the integration of effective risk data and the regulatory compliance of risk reporting. The Bank has also made efforts to promote the implementation of Basel III, and accelerated the project construction of new measurement methods for credit risk, market risk and operational risk.

The Bank has also continued to enhance its credit risk management system and implemented national macro-control policies. In this context, the Bank has adopted industry-specific credit guidelines and a customer list-based management system, and implemented a standardised authorisation and credit approval process, where credit applications are reviewed by dedicated professionals. The Bank has further refined its risk management tools and systems by adopting credit limits with respect to its exposure to borrowers, developing a risk reporting system, implementing a 12-category loan classification system and adopting a customer credit rating system for corporate loans. The Bank has developed a plan to implement the New Basel Capital Accord and upgrade its internal rating-based system for its customers. The Bank has also expanded the use of economic capital management tools from credit risk management to market risk and operational risk management, further reinforced the implementation and application of advanced capital management methods and conducted financial stability stress tests in coordination with the PBOC and the CBIRC. In addition, the Bank has strengthened on-going monitoring and regular validation of its internal retail rating system and improved the accuracy and prudence of its rating system for non-retail clients and retail clients. The Bank also promoted the application of the Internal Models Approach and enhanced its compliance evaluation, as well as applied the Advanced Measurement Approach for operational risk to economic capital measurement and optimised its models in order to improve the stability and sensitivity of its economic capital models.

The Bank also established and improved its internal control and compliance management system and internal audit system. These systems have enabled it to enhance its internal control and compliance management capabilities, strengthen its designated internal audit function and reduce operational risks and incidences of fraud and other non-compliance.

Leading information technology platform

The Bank believes that it has one of the most advanced information technology platforms among all commercial banks in China. The Bank accomplished data centralisation in 2006 and has gradually established a centralised computer network system which, through its national data centre, covers nationwide branch outlets and links teller terminals throughout China. In 2010, the Bank completed the construction of a new-generation core banking system and IT infrastructure, core business system as well as basic data platform. In 2016, the Bank undertook the construction of key technology projects by developing three platforms for financial services, social life and e-commerce and launching various innovative financial products which utilize information technology such as e-accounts. The Bank refined its operation and credit risk monitoring systems, further integrated its operations, applications and support systems in Shanghai and Beijing and finished data input for its big data platform.

By establishing an information technology system which effectively integrates the Bank's customer service channels, including physical counters, internet banking, customer service system, phone banking, mobile phone banking and information platforms, the Bank is able to provide its management team with certain financial and operational data on a T+1 basis and better serve its customers in an efficient and effective manner. The Bank has also focused on calibrating its information systems to meet the requirements of its County Area Banking Business and strengthening its information technology capabilities in support of its continued expansion in the County Areas.

Experienced management team with a proven track record

The Bank has an energetic, experienced and entrepreneurial management team with an established proven track record in the financial services industry. The Bank's senior management team have on average over 20 years of professional experience in the financial industry. All members of the Bank's management team have in-depth knowledge of banking operations and management and, through their working experience with the Bank and at other Chinese financial institutions, have gained an in-depth understanding of China's macroeconomic environment, its banking industry and the financial system in China's County Areas in particular.

The Bank's experienced management team has demonstrated a track record of successfully implementing a series of transformational initiatives, including the Bank's financial restructuring and the improvement of the Bank's corporate governance and risk management. Under the leadership of its management team, the Bank has significantly improved its operations and financial results and is moving toward its goal of becoming a world-class commercial bank.

THE BANK'S STRATEGIES

By leveraging its leading positions in both Urban Areas and County Areas, the Bank believes it will become a world-class financial institution through the successful implementation of the following strategies.

Further strengthen the Bank's leadership in the Urban Areas

The Bank plans to further strengthen its leadership in the Urban Areas by focusing on key customers and selected geographical regions and promoting innovative, high value-added products and services. As part of the Bank's overall strategy,

- The Bank plans to further develop its business in the more economically developed regions, such as the Yangtze River Delta, Pearl River Delta and Bohai Rim, focusing on key cities and other areas with abundant financial resources, such as provincial capitals and regional centres.

- The Bank will continue to focus on large and high-quality customers in its corporate banking business, including industry leading companies, large state-owned enterprises and Chinese subsidiaries of global Fortune 500 companies, while maintaining its leadership in the SME segment. In addition, the Bank plans to tailor its sales and marketing efforts to industry sectors with significant growth potential.

- The Bank will further upgrade its outlets and strengthen its customer segmentation capabilities to enhance cross-selling in its retail banking business. The Bank aims to achieve higher returns through continued focus on high-growth business areas, such as wealth management and private banking.

Solidify the Bank's dominant position in the County Areas

The Bank believes that China's vast and fast-growing County Areas present significant growth potential and will be a key driver for China's long-term economic growth. The Bank has a business unit dedicated to the County Area banking market. The Bank intends to leverage its dominant market position and its first-mover advantage, to strengthen its presence and customer penetration in the County Areas, which the Bank believes will deliver more significant profit contribution. Specifically:

- The Bank intends to capture opportunities arising from the urbanisation and industrialisation process to provide customers in the County Areas, particularly industry-leading companies in the County Areas as well as their suppliers, customers and distributors, with comprehensive financial products and services.

- The Bank aims to meet the needs of mid- to high-end retail customers in the County Areas, and to leverage its Huinong Card (惠農卡) to develop businesses related to new rural pension insurance and new rural cooperative medical insurance schemes.

- The Bank plans to leverage its extensive electronic distribution channels to expand its coverage in the County Areas, provide its customers in the County Areas with more convenient and user-friendly services and increase its operational efficiency in the County Areas.

- The Bank will continue to allocate additional resources to selected sub-branches in the County Areas to drive the growth of its business in the County Areas.

- The Bank will fully implement the strategic plan of the CPC Central Committee on rural revitalization. Focusing on the quality service, risk control and business sustainability, the Bank will fully promote the transformations in respect of its service channels, service modes and risk control for the County Area banking business.

Improve financial services provided to Sannong and the real economy

With a focus on supporting the supply-side structural reform, the Bank will bolster the five key actions to "cut overcapacity, reduce inventory, deleverage, lower costs and bolster areas of weakness", specifically:

- The Bank will reduce total credit exposure to borrowers in certain industries with overcapacity and support the transformation and upgrading of enterprises.

- The Bank will implement differentiated approaches for business across the real estate industry, and strongly support the distinctive Anjiadai loan for rural households.

- The Bank will, through ABC Asset Management Co., Ltd., steadily facilitate debt-to-equity swaps in the market and actively provide equity financing to enterprises through wealth management-related financing, industrial funds and debt-equity combination financing.

- The Bank will strictly implement the relevant government policies and regulations on pricing of its services, control fee rates charged by the Bank and stabilize the cost of capital in rural areas.

- The Bank will innovate financing service models, which focus on major infrastructural projects of significance, corporate technological renovation and equipment upgrades, as well as mass entrepreneurship and innovation, to increase its financial supply.

- The Bank will actively serve the major national strategies and projects, innovate to support emerging areas, strengthen green financial services, enhance the accuracy and coverage of inclusive financial services, and strengthen the financial services related to consumption upgrading and people's livelihood.

Promote digital transformation of the Bank

The Bank will actively promote the construction of the Ten Projects of digital transformation, such as the digital village project and mobile banking project, achieving remarkable results in serving the real economy and effective improvement in customer experience and satisfaction. The Bank will accelerate to form a new smart banking model that is technology-led, data-enabled and digitally-operated and create new competitive advantages in the digital era, striving to build the Bank into a smart bank with first-class customer experience and the best in class digital eco-bank in Sannong and inclusive finance areas. Specifically:

- The Bank intends to further strength its integrated management capability of online credit business and to further increase the scale of online financing steadily.

- The Bank aims to further improve the capability of online operation for customers and further optimise the customer experience. The Bank will also further empower its foundation-level branch outlets with digital technologies and promoted the integrated operation of all online and offline channels to offer uninterrupted and diversified services.

- The Bank plans to further improve its scene-based financial service capability and build more customer service scenes.

- The Bank will continue to improve its online marketing capability and expand its service coverage and will continue to realise closed-loop marketing of multiple products through its digital customer relationship management system (DCRM).

- The Bank will continue to improve its digital risk management and control capability and to realise the integrated risk management.

- The Bank intends to further consolidate its data and technology foundation, which effectively ensures its business continuity. The Bank will accelerate the construction and application of the Big Data platform and further expand the data analyst team. The Bank will further implement the distributed cloud platform project, further promote the construction of an integrated cloud platform, and continue to focus on constructing the disaster recovery system, thereby comprehensively ensuring the Banks's business continuity.

THE BANK'S PRINCIPAL BUSINESSES

The Bank's business segments consist of corporate banking, retail banking, treasury operations and other operations. The following table sets forth, for the periods indicated, the Bank's operating income by business segments.

	For the year ended 31 December						For the six months ended 30 June			
	2019		2020		2021		2021		2022	
(in CNY millions, except for percentages)	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(Audited)		(Audited)		(Audited)		(Unaudited)		(Unaudited)	
Corporate banking business	271,113	43.1	260,853	39.6	269,899	37.4	149,554	40.8	146,934	37.9
Retail banking business	240,579	38.2	277,603	42.1	318,402	44.1	138,226	37.7	179,581	46.3
Treasury operations	79,102	12.6	77,179	11.7	85,942	11.9	46,644	12.8	26,962	7.0
Other businesses	38,556	6.1	43,697	6.6	47,503	6.6	31,830	8.7	34,182	8.8

Corporate banking

For the six months ended 30 June 2022, corporate banking constitutes the Bank's primary source of income and has consistently contributed 37.9 per cent. of its total operating income. The Bank offers a broad range of corporate banking products and services to corporations and other entities, including state-owned enterprises, private enterprises, foreign-invested enterprises and government agencies, which the Bank collectively refers to as its corporate banking customers. The Bank's corporate banking business consists primarily of corporate loans and deposits, small and micro enterprise banking business, institutional banking services, settlement and cash management, investment banking, trade financing and international settlement. Corporate banking accounted for 43.1 per cent., 39.6 per cent., 37.4 per cent., 40.8 per cent. and 37.9 per cent. of its total operating income in the years ended 31 December 2019, 2020 and 2021, and for the six months ended 30 June 2021 and 2022, respectively. The Bank's domestic corporate loans accounted for 53.2 per cent., 53.7 per cent., 53.5 per cent. and 54.6 per cent. of its total loans, and its domestic corporate deposits accounted for 38.7 per cent., 37.9 per cent., 37.3 per cent. and 46.3 per cent. of its total deposits from customers as at 31 December 2019, 2020 and 2021, and as at 30 June 2022, respectively.

Customer base

As at 30 June 2022, the Bank had approximately 9,051.0 thousand corporate banking customers, of which approximately 396.2 thousand had outstanding loans.

As at 30 June 2022, the Bank's major corporate loan customers concentrated in sectors such as (i) manufacturing; (ii) transportation, storage and postal services; (iii) real estate; (iv) leasing and commercial services and (v) production and supply of electricity, heating, gas and water; represented 18.0 per cent., 20.1 per cent., 7.9 per cent., 14.9 per cent. and 10.1 per cent. of its total corporate loans outstanding, respectively.

In addition to expanding its customer base, the Bank has focused on optimising the structure of its customer base by developing relationships with large state-owned enterprises, industry-leading companies and government agencies.

Major products and services

Institutional Banking

The Bank offers a comprehensive range of institutional banking services including inter-bank agency business cooperation arrangements, third-party depositary services and banking cooperation. While the Bank's institutional customers include the government and financial institutions, the Bank also provides institutional banking services with respect to people's livelihood. As at 30 June 2022, the Bank had 598.2 thousand institutional customers, representing an increase of 6.9 per cent. as compared to the end of the previous year. In terms of financial services provided to the governments, the Bank's coverage rate of cooperation with prefecture level service platforms for government affairs reached 83.0 per cent.

The Bank continued to improve functions such as pandemic prevention and control, rural revitalization and integration of party building on "iXiangyang" APP. The Bank had cooperated with 13 counties in eight provinces through Smart County, a smart service platform for county government affairs, whose functions and applications were further enriched. In terms of services with respect to people's livelihood, the number of customers with electronic certificates for medical insurance through its mobile banking exceeded 50.82 million. The Bank cooperated with over 30 thousand schools on its smart campus, and over four thousand hospitals on its smart hospital. In terms of services to financial institutions, the contacted customers for third-party depository services amounted to 62,080.0 thousand at the end of June 2022, representing an increase of 5,327.4 thousand as compared to the end of the previous year.

Transaction Banking

The Bank offers a range of transactional banking services including accounts and payment settlement, cash management and supply chain financing. In 2021 and the first half of 2022, the Bank continued to develop the transaction banking system based on accounts and payment settlement. The Bank comprehensively pushed forward the construction of the "Smart Payment+" platform, and accelerated the online layout of its products, which promoted the high-quality development of its transaction banking business. The Bank implemented graded and classified management of corporate accounts, enhanced account opening services for enterprises, and fostered its ability of customer acquisition at the branch outlets and on the Internet. As at 30 June 2022, the Bank had 9.5 million corporate RMB-dominated settlement accounts. The Bank also promoted E-guarantee to implement the entire electronic process in terms of guarantees for the bidding and tendering of the public resources center. The Bank upgraded the Gongxin Bao to cover the scenario of supervision for the wages of migrant rural workers. In addition, the Bank optimized the fund supervision to ensure the safety of key engineering capitals. The Bank also iteratively upgraded smart guaranteed payment to provide comprehensive financial service output for transactions of E-commerce platform customers. As at 30 June 2022, the Bank had 3.7 million active transaction banking customers.

Investment banking

Adhering to develop investment banking business to serve the real economy, the Bank provides investment banking services including bond financing, syndicated financing, M&A and restructuring, and asset securitization to its corporate customers. In 2021 and in the first half of 2022, the income of the Bank's investment banking business amounted to CNY9.4 billion and CNY8.0 billion, respectively.

The Bank actively served major national strategies by fulling supporting the new infrastructure and new urbanization initiatives and major projects, and serving key projects in the basic assets integration, urban renewal and hydroelectric development with diversified financing tools. Serving the strategy of rural revitalization, the Bank supported grain collection and storage, and local smart ecological agriculture projects with bond underwriting and syndicated financing. Serving the strategy of "bringing in" and "going out", the Bank supported high-tech enterprises to expand their overseas industrial chains with cross-border M&A loans. The Bank also promoted business innovation continuously. The Bank increased support for direct financing to enterprises and underwrote debt financing instruments of non-financial enterprises with an amount of over CNY200.0 billion. The Bank continuously promoted business innovation. The Bank launched a number of funds for science and technology innovation, accelerated the promotion of the advisory service of stock option arrangement, orderly promoted the enterprise listing cultivation service, and actively promoted the model of investment and loan linkage service for science and technology startups. The Bank underwrote the first batch of science and technology innovation notes, the first batch of transition bonds and the first high-growth asset-backed commercial paper (ABCP) in the market, and led in the market in terms of underwriting volume of rural revitalization bonds and green bonds.

Retail banking

The Bank provides its retail banking customers with a broad range of products and services, including retail loans, bank cards, retail deposits, private banking business and other fee- and commission-based products and services.

For the years ended 31 December 2019, 2020 and 2021, and for the six months ended 30 June 2021 and 2022, the Bank's retail banking business generated operating income of CNY240.6 billion, CNY277.6 billion, CNY318.4 billion, CNY138.2 billion and CNY179.6 billion, respectively, representing 38.2 per cent., 42.1 per cent., 44.1 per cent., 37.7 per cent. and 46.3 per cent. of its total operating income for the same years and periods.

As at 31 December 2019, 2020 and 2021, and as at 30 June 2022, the Bank had domestic retail deposits of CNY10,904.7 billion, CNY11,926.0 billion, CNY12,934.2 billion and CNY14,189.9 billion, representing 58.6 per cent., 59.3 per cent., 59.9 per cent. and 59.6 per cent. of its total deposits, and outstanding domestic retail loans of CNY5,391.7 billion, CNY6,198.7 billion, CNY7,117.2 billion and CNY6,843.4 billion, representing 40.4 per cent., 41.0 per cent., 41.5 per cent. and 39.9 per cent. of its total loans, respectively.

As at 30 June 2022, the Bank had issued 1,274 million debit cards. The Bank maintained a consistently high ranking among all commercial banks in China in terms of the total number of bank cards issued from 2006 to 2020.

Major products and services

Retail loans

As at 31 December 2019, 2020 and 2021, and as at 30 June 2022, the Bank had a total of CNY5,391.7 billion, CNY6,198.7 billion and CNY7,117.2 billion and CNY7,483.4 billion respectively, in domestic retail loans outstanding, which accounted for 40.4 per cent., 41.0 per cent. and 41.5 per cent., and 39.9 per cent. of its total loans, respectively.

The Bank provides its customers with floating-rate residential mortgage loans, fixed-rate residential mortgage loans and hybrid-rate residential mortgage loans. The Bank's residential mortgage loans are generally secured by the underlying property being purchased. As at 31 December 2019, 2020 and 2021, and as at 30 June 2022, the Bank's residential mortgage loans outstanding amounted to CNY4,162.4 billion, CNY4,662.1 billion, CNY5,242.3 billion and CNY5,344.5 billion, respectively, which accounted for 77.2 per cent., 75.2 per cent., 73.4 per cent. and 71.3 per cent. of its total domestic retail loans outstanding as at the same dates.

The Bank provides a variety of personal consumption loans including personal credit lines, consumer auto loans, comprehensive consumer loans and retail loans secured by pledges. As at 30 June 2022, the Bank had CNY186.2 billion of personal consumption loans outstanding, representing 2.5 per cent. of its total domestic retail loans.

Loans to private businesses are generally granted to private business owners to meet their funding needs arising from their operations, primarily including loans to finance the operations of private businesses, commercial mortgage loans to private businesses and auto loans to private businesses. As at 31 December 2019, 2020 and 2021, and as at 30 June 2022, the Bank had CNY264.3 billion, CNY379.6 billion, CNY300.1 billion and CNY330.8 billion in loans to private businesses outstanding, respectively, which accounted for 4.9 per cent., 6.1 per cent., 8.3 per cent. and 8.2 per cent. of its total domestic retail loans outstanding as at the same dates.

The Bank's credit card and quasi-credit card customers are allowed to withdraw or overdraft through its credit consumption function. As at 31 December 2019, 2020 and 2021, and as at 30 June 2022, the outstanding overdraft amounts for the Bank's personal bank cards totalled CNY474.2 billion, CNY542.6 billion, CNY626.8 billion and CNY651.7 billion respectively, which accounted for 8.8 per cent., 8.8 per cent., 8.8 per cent. and 8.7 per cent. of its total domestic retail loans outstanding as at the same dates.

The Bank also offers loans to rural households. As at 31 December 2019, 2020 and 2021, and as at 30 June 2022, the Bank's outstanding amount for loans to rural households was CNY322.0 billion, CNY435.3 billion, CNY603.4 billion and CNY750.7 billion, respectively, which accounted for 6.0 per cent., 7.0 per cent., 8.5 per cent. and 10.9 per cent. of its total domestic retail loans outstanding as at the same dates.

Retail deposits

The Bank offers retail demand deposits and time deposits in Renminbi and foreign currencies to its retail banking customers. Retail demand deposits include general demand deposits and flexible-term deposits.

Retail time deposits consist of general time deposits, call deposits, education savings deposits, and deposits and withdrawals in lump sums, deposits in instalments while withdrawing in lump sums and time deposits with periodic interest payments that can be withdrawn on demand. The Bank currently offers regular time deposit products with terms ranging from three months to five years for Renminbi-denominated deposits and one month to two years for foreign currency-denominated deposits.

As at 31 December 2019, 2020 and 2021, and as at 30 June 2022, the Bank had domestic retail deposits of CNY10,094.7 billion, CNY11,926.0 billion, CNY12,934.6 billion and CNY14,190 billion, which accounted for 58.6 per cent., 59.3 per cent., 63.1 per cent. and 63.8 per cent., respectively, of its total deposits. The Bank is one of the leading commercial banks in China in terms of market share expansion.

Bank cards

The Bank offers integrated card products and services to personal customers under the brand name "Kins Card"("金穗卡"), which consists of Renminbi-denominated debit cards, credit cards, quasi-credit cards and dual-currency credit cards denominated in CNY and U.S. dollars. The Bank designed a variety of co-branded debit cards relating to livelihood, campus, public utilities and other areas, and launched exclusive co-branded cards for doctors and firemen who had made outstanding contributions in emergencies, such as pandemic prevention and control. In the first half of 2022, the Bank promoted services such as special points redemption and exclusive credit lines for specific customer groups. The Bank also rolled out new products such as the National Treasure Card and Monkey King Card, and launched DIY functions for card numbers and card faces, which helped upgrade consumption.

As at 30 June 2022, the Bank had issued 1,052 million debit cards. For the six months ended 30 June 2022, the Bank had cumulatively issued 22,197.1 thousand debit cards. For the six months ended 30 June 2022, the total transaction volume for the Bank's credit cards reached CNY1.1 trillion, while it was CNY2.3 trillion for the year ended 31 December 2020. For the years ended 31 December 2019, 2020 and 2021, and for the six months ended 30 June 2021 and 2022, the fee and commission income generated by the Bank's bank card business were CNY15.5 billion, CNY14.7 billion, CNY15.4 billion, CNY7.5 billion and CNY8.4 billion, respectively.

Private Banking Business

The Bank focuses on family trusts, insurance premium trust, charity trust and enhancing synergies between the domestic and overseas markets and facilitating cross-border financial services. As at 30 June 2022, the Bank had around 191,000 private banking customers and CNY2,062.4 billion of assets under management through private banking services. The Bank continued to strengthen the marketing for private banking customers, launched the "On-the-Wing Initiative" for private banking business, continued to establish private banking centers at the head office level, and strengthened the construction of key wealth management centers and penetration supervision. The Bank accelerated the development of family trust business, established a four-level linkage mechanism, and responded to customers' needs for customized wealth inheritance in real time. The Bank deepened the construction of the "Yi Private Banking" public welfare financial laboratory, and launched a number of charitable trusts with strong social influence such as Yuan Longping Charitable Trust. The Bank continued to develop the private banking high-end wealth management business, practiced the concept of long-term and steady asset allocation, and continued to strengthen the sales of steady strategic products, with the scale of agency sales of asset management and private banking exclusive wealth management products steadily increased. As at 30 June 2022, the number of the Bank's private banking customers reached 191.0 thousand and the balance of assets under management amounted to CNY2,062.4 billion, representing an increase of 21.0 thousand and CNY215.9 billion, respectively, as compared to the end of the previous year.

Treasury operations

The Bank's treasury operations consist primarily of (i) money market activities, (ii) trading book activities, and (iii) banking book activities. In conducting its treasury operations, the Bank seeks to ensure its liquidity and achieves a balance between returns and risks on its investment portfolio, taking into consideration various factors including the market and macroeconomic conditions. For the six months ended 30 June 2022, operating income from the Bank's treasury operations was CNY26,962.0 million.

Money market activities

The Bank's money market activities primarily consist of (i) inter-bank money market activities, repurchase and reverse repurchase transactions and (ii) public market bidding, including bidding for repurchase and reverse repurchase transactions by the PBOC, PBOC bills and national treasury cash administration. The securities underlying the Bank's inter-bank repurchase and reverse repurchase transactions are predominantly Renminbi-denominated PRC government and policy bank bonds, bank acceptance bills and PBOC bills, with a portion of foreign currency-denominated bonds primarily issued by foreign governments and agencies.

The Bank was one of the first banks to be approved by the PBOC to provide SHIBOR quotes. As one of the SHIBOR-quoting banks, the Bank provides daily quotes based on its own liquidity and capital supply and demand. For the six months ended 30 June 2022, the Bank's Renminbi-denominated financing volume was CNY66,204.25 billion. For the year ended 31 December 2021, the Bank's Renminbi-denominated financing volume was CNY53,038.60 billion.

Trading Book Activities

The trading book is comprised of financial instruments and commodity positions held for trading, including all derivatives instruments. Any other financial instruments are included in the banking book. The Bank continuously maintained a leading position among the peers in respect of both the bond market-making business and the bond trading business in the inter-bank market, with a steady rise in market share. The Bank enhanced the market-making quotation for green bonds and provided market-making quotation services for four green bonds in the first half of 2022.

Banking Book Activities

The Bank continued to enhance the quality and effectiveness of bond investment to serve the real economy in 2021 and the first half of 2022. The Bank maintained the investment in local government bonds, optimized the investment structure of credit bonds to support the national regional strategy and local economic development, the construction of major projects in transportation, power and energy, public utilities and infrastructure, and industries in line with the national strategy of transformation, such as science and technology and consumption. The Bank increased investment in green bonds at the primary and secondary markets, and actively invested in green bonds such as "carbon neutrality bonds" to help achieve the goal of "carbon neutrality and peak carbon dioxide emissions".

Asset Management

The Bank offers asset management products and services, such as wealth management, custody service, pension, precious metals, treasury transactions on behalf of customers, agency insurance business, agency distribution of fund products and agency sales of PRC government bonds.

Wealth management

The Bank has a comprehensive portfolio of products for its wealth management services. The Bank established a wealth management subsidiary, Agricultural Bank of China Wealth Management Co., Ltd, in 2019. In the first half of 2022, the Bank proactively implemented the requirements for the net worth operation of wealth management products, and steadily carried out wealth management investment. As at 30 June 2022, the balance of the Group's wealth management products amounted to CNY1,843,806 million, of which CNY162,221 million was generated from the Bank and CNY1,681,585 million was generated from Agricultural Bank of China Wealth Management Co., Ltd. In addition, in October 2022, Agricultural Bank of China Wealth Management Co., Ltd. received approval from CBIRC to launch a wealth management joint venture with BNP Paribas Asset Management Holding S.A..

Custody Service

As at 30 June 2022, the Bank had CNY13,567.8 billion of assets under custody and its commission income from custody service and other fiduciary services amounted to CNY1,006 million in the first half of 2022.

Pension

As at 30 June 2022, pension funds under the Bank's custody amounted to CNY187.9 billion.

Precious metals

The Bank has steadily developed its precious metal agency business. To meet the demands of different customers for risk hedging and investments, the Bank offers precious metals forward trading and precious metals leasing services for its customers, accelerated the research and development of agency retail spot deferred trading system and gold passbook product, and launched the system development for retail paper gold (silver) business. Targeting retail, corporate and institutional customers, the Bank sped up the establishment of precious metal business system, focusing on the development of products, financing and services. In 2014, the Bank was part of the first batch of banks to obtain international membership at the Shanghai Gold Exchange and to qualify for settlement on its international board. For the six months ended 30 June 2022, the Bank traded 2,093.0 tons of gold and 10,828.9 tons of silver for its own account and on behalf of its customers. For the year ended 31 December 2021, the Bank traded 4,454.7 tons of gold and 51,980.0 tons of silver for its own account and on behalf of its customers.

Treasury transactions on behalf of customers

The Bank is one of the first commercial banks in China approved to provide forward settlement services and other derivative financial products. The Bank also engages in a broad range of treasury transactions on behalf of its corporate and retail banking customers. In addition, the Bank provides settlement, foreign currency trading, foreign currency derivatives trading and treasury services on behalf of its customers through its treasury operations. The Bank actively developed Renminbi settlement services to capitalise on the appreciation of CNY. For the six months ended 30 June 2022, the transaction volume of the Bank's foreign exchange sales and settlements as well as foreign exchange trading on behalf of customers amounted to U.S.$274.1 billion. For the year ended 31 December 2021, the transaction volume of the Bank's foreign exchange sales and settlements as well as foreign exchange trading on behalf of customers amounted to U.S.$476.9 billion.

The counter bond (Zhaishibao) business also developed steadily. The Bank strengthened its efforts to serve the real economy and support major national development strategies by proactively providing quotations of local government bonds and thematic bonds such as rural revitalization bonds. As at 30 June 2022, the Bank provided counter quotations for more than 70 bonds including local government bonds and thematic bonds such as rural revitalization bonds in total.

Agency insurance business

The Bank maintained a leading position in the agency insurance industry. The Bank's income from the agency insurance business with regular premium for the six months ended 30 June 2022 had an increase of 19.6 percentage points as compared to the same period of 2021. The Bank's income from the agency insurance business with regular premium for the year ended 31 December 2021 had a year-on-year increase of 11.0 per cent..

Agency distribution of fund products

In collaboration with fund management companies and securities firms, the Bank distributes various fund products as an agent. For the six months ended 30 June 2022, the number of funds distributed by the Bank amounted to 3,428, with sales volume amounting to CNY114,356 million. For the year ended 31 December 2021, the number of funds distributed by the Bank amounted to 2,330, with sales volume amounting to CNY344,448 million.

Agency sales of PRC government bonds

For the six months ended 30 June 2022, the Bank distributed 4 tranches of savings PRC government bonds as an agent in the amount of CNY10.7 billion, including 2 tranches of savings PRC government bonds (in electronic form) of CNY4.3 billion and 2 tranches of savings PRC government bonds (in certificate form) of CNY6.3 billion. For the year ended 31 December 2021, the Bank distributed 18 tranches of savings PRC government bonds as an agent in the amount of CNY39.6 billion, including 8 tranches of savings PRC government bonds (in electronic form) of CNY15.3 billion and 10 tranches of savings PRC government bonds (in certificate form) of CNY24.2 billion.

Internet Finance

The Bank implemented in-depth operation strategies of data-driven commercialization and business digitalization, focused on creating an omni-channel, all-scenario, all-link online operation system, and fully enhanced the value creation and market competitiveness of online channels.

Smart Mobile Banking

The Bank continued to strengthen the construction of online financial service platform and product innovation with mobile banking as the core, improved the intelligent, personalized and exclusive service capabilities of mobile banking, and accelerated the iterative upgrade of versions of the mobile banking. The Bank promoted the construction of mobile banking platform by refining customer classification and providing personalized menu functions, preferential rights and information for different customer groups. The Bank launched more than 10 new functions such as personal credit report, intelligent breakdown analysis of revenue and expenditure, and voice intelligent interaction, as well as an exclusive version of mobile banking. The Bank also launched the "Rural Version" for customers in County Areas, and added exclusive service channels such as Agriculture-related Wealth Management, Huinong E-loan and Huinongtong Service Station. In addition, the Bank launched the "large font version" for elderly customers, which enlarged the page display, streamlined the service functions, and optimized the transaction process. As at 30 June 2022, the number of monthly personal mobile banking customers reached 164 million, representing an increase of 14 million as compared to 31 December 2021.

Corporate Finance Service Platform

In the first half of 2022, the Bank upgraded its corporate finance service platform. The Bank upgraded the technical framework of the platform, optimized configuration center for special versions, and enhanced the capability of the platform for customized service. The Bank launched the Enterprise WeChat Bank to-do task prompt and other functions to improve the channel collaboration service ability. The Bank enriched the deployment of corporate banking functions, optimized corporate financing services, and upgraded the "Inclusive E-Station" channel, which enhanced its mobile financial service capabilities. In addition, the "Salary Manager" service platform was optimized. The Bank realized the separation of HR and finance of payroll business. The Bank also developed and launched a hybrid salary function, supporting hybrid payment of salary from digital Renminbi accounts and basic settlement accounts. As at 30 June 2022, the number of customers of the Bank's corporate banking service platform and number of corporate mobile banking customers reached 10.13 million and 4,762.0 thousand, respectively, representing an increase of 0.66 million and 612.0 thousand, respectively as compared to 31 December 2021. The transaction volume was CNY143.5 million under the corporate financial services platform for the six months ended 30 June 2022.

Online Credit

The Bank coordinated the high-quality development of online credit businesses focusing on business lines of retail banking, small and micro enterprises, farmers, as well as the supply chain financing. The Bank also promoted the application of the "Inclusive E-station" service platform, focused on promoting growth, stabilizing price, adjusting structure, improving efficiency and controlling risks, optimized key products such as the "Taxation E-loan" and "Mortgage E-loan", innovated the "First Account E-loan" and "Account E-loan", and improved the availability of loans to small and micro enterprises.

In addition, the Bank offers a range of online supply chain financing services, providing products including accounts receivable financing, order financing, factoring financing and commercial bill discounting. The Bank also provides online discount of supply chain bills "Supply Chain Bill E-finance" to provide comprehensive and high-quality financial services to upstream and downstream customers of the supply chain. Furthermore, the Bank plays the role of the digital risk control center, and carried out online credit risk monitoring and remote centralized early warning and audit, overdue collection and fraud risk mitigation through digitalized, intensive and intelligent risk control measures.

Smart Scene-based Finance

In the first half of 2022, the scene-based applications with high-frequency transactions were deeply promoted. In terms of campuses, the Bank accelerated the iteration of headquarters' version of smart campus application to provide comprehensive financial and non-financial services such as campus payment, campus access control, notice and announcement, and new student registration. In terms of canteens, the Bank completed the research and development of "ABC canteen" mini applications to realize meal card query, meal card recharge, dining payment, online ordering and other functions. In terms of government affairs, the Bank promoted the e-government dedicated zone of Mobile Banking and accelerated the cooperation with the e-government platforms of various provinces and cities. In terms of travel, the Bank established the car owner service zone and integrated related products, services and interests, achieving "cooperation with and sharing of external services, and seamless integration of banking products".

In addition, the service capabilities of open banking were improved. The Bank continued to enrich the open banking output products, and provided seven types of output services including user authentication, account services, payment and settlement, fund products, financing services, mobile banking collaboration, and information services through the open banking platform. The Bank improved the interconnection efficiency of internal and external systems, and satisfied the needs of personalized and diversified cooperation through flexible configuration. The number of open banking cooperation projects increased by 32.0 per cent. as compared to the end of the previous year.

Sustainable Finance

<u>*Inclusive Finance*</u>

Based on the positioning of "*a major bank serving the real economy*", the Bank focused on enhancing the willingness, ability and sustainability of serving small and micro enterprises and other market entities, and helped stabilize market entities, employment and entrepreneurship, and economic growth. As at 30 June 2022, the balance of the Bank's inclusive loans to small and micro enterprises reached CNY1,697,305 million, representing an increase of 28.4 per cent. as compared to the end of the previous year. The number of customers with outstanding loan balance was 2,415.8 thousand, representing an increase of 500.3 thousand as compared to the end of the previous year. The annualized interest rate of newly granted loans in the first half of the year was 3.95 per cent., representing a decrease of 15 percentage points as compared to the previous year.

In addition, the Bank optimized the construction of inclusive finance service system. The Bank leveraged the advantage of extensive coverage to further decentralize the business focus. The Bank established a two-level inclusive financial specialized institution system at head office and branches to strengthen the professional service to small and micro enterprises. The Bank continued to build a digital customer service platform for inclusive finance, and improved the financial service functions of "inclusive E station".

The Bank also innovated the online product system of inclusive finance business. The Bank improved the hierarchical and classified product innovation mechanism, enriched the financing scenarios, and created a series of "*ABC E-Loan*" products to meet the financing needs of small and micro enterprises, individual industrial and commercial households, farmers and other inclusive customers. The Bank improved the long-term service mechanism of inclusive finance. The Bank also established differentiated policies and systems for inclusive finance business, provided preferential economic capital assessment and internal fund transfer pricing for inclusive loans, and maintained the proportion of inclusive business assessment at more than 10.0 per cent.. The Bank also set up a special incentive strategy expense and matched the incentive wages separately, and specified policy for liability exemption conditional on due diligence. In addition, the Bank improved the digital risk control capability for inclusive finance business. The Bank also optimized the risk identification system, made full use of data cross-validation, and implemented the whole-process risk prevention and control, controlling the non-performing rate of inclusive loans within the tolerance range.

Green Finance

The Bank closely focused on the decisions and plans of the CPC Central Committee and the State Council on reaching goals of peak carbon emissions and carbon neutrality, listed Green Finance as one of the three major strategies of the Bank during the 14th Five-Year Plan period, adhered to the path of ecological priority and green and low-carbon development and strived to build a distinctive and widely recognized dominant brand in Green Finance. During the first half of 2022, the Bank formulated relevant working rules of the Green Finance Committee, held the Green Finance Committee Promotion Meeting regularly, issued the key points of Green Finance for 2022, and actively promoted the implementation of the green Finance Strategy. The Bank continued to optimize the green credit policy, promoted diversified innovation of its green financial products, and increased financial support in the field of green industry, achieving rapid growth in Green Finance business. The Bank released the first Green Finance special report in Chinese and English, demonstrating an overall perspective of the Bank's Green Finance development.

Green Credit

The Bank strengthened policy guidance and optimized resource allocation. The Bank incorporated green and low-carbon requirements into the annual credit policy guideline, Sannong credit policy guideline and inclusive finance credit policy guideline, revised credit policies for new energy fields such as wind power, solar power, nuclear power and biomass power, and actively guided the investment of green funds. The Bank also implemented the latest national energy efficiency requirements in industrial policies for industries including steel, petrochemical and electric power to guide the transformation and upgrade of relevant industries. The Bank implemented differentiated policy arrangements in areas such as authorization, rating, industry limit and product innovation for qualified green credit business.

Furthermore, the Bank enhanced its product and service innovation. The Bank innovatively launched green finance products such as reserve forest loan, rural living environment loan, pledge loan of new plant variety rights, rural revitalization "Lucid Waters and Lush Mountains Loan", ecological co-wealth loan, and Forest (Bamboo) Carbon Exchange Loan.

In addition, the Bank promoted the construction of the major project pool. The Bank built a pool of major green finance projects, a pool of key projects in energy sectors and a pool of ecological and environmental protection marketing reserve projects. The Bank participated in the construction of "Financial Support Project Management System for Ecological and Environmental Protection" of the Ministry of Ecology and Environment as one of the first batch of cooperative financial institutions.

Moreover, the Bank actively use the carbon emission reduction supporting tools. In the six months ended 30 June 2022, a total of approximately CNY28.0 billion of carbon emission reduction loans were applied to the PBOC. Since the implementation of the carbon emission reduction supporting tools in the second half of 2021, a total of over CNY60.0 billion of carbon emission reduction loans had been granted. The Bank also enhanced the granting of green credit. The Bank enhanced credit supply in key areas such as green upgrade in infrastructure and clean energy. As at 30 June 2022, the outstanding balance of green credit granted by the Bank was CNY2,374.3 billion, representing an increase of 20.0 per cent. as compared to the end of the previous year.

Green Investment and Financing

The Bank continued to increase its investment in green bonds in primary and secondary market, and supported innovative products such as blue bonds and sustainability-linked bonds. As at 30 June 2022, the green bonds invested for the Bank's own account reached CNY104.3 billion, representing an increase of 18.1 per cent. as compared to the end of the previous year.

For example, ABC-CA Fund Management Co., Ltd. actively promoted green transformation. Based on the national goals of "peak carbon emissions and carbon neutrality", ABC-CA Fund Management Co., Ltd. constantly improved green product deployment, promoted the issuance of ESG indexes funds and green energy-related funds, and increased the green investment.

As at 30 June 2022, the proportion of green investment in stock assets increased by six percentage points as compared to the end of last year, and the scale of green bond investment increased by CNY0.47 billion as compared to the end of last year. Adhering to the business concept of "green leasing", ABC Financial Leasing Co., Ltd. built its distinctive features of green leasing, established and improved a sound green leasing product system. It actively expanded the field of green leasing services, explored the establishment of various business models, such as "*leasing + credit*", "*leasing + equity investment*" and "*direct leasing + EPC*", to provide diversified financial services to various entities in the industry chain. As at 30 June 2022, its balance of green leasing assets was CNY51.59 billion, representing an increase of 5.6 per cent. as compared to the end of the previous year, accounting for 66.4 per cent. of its total leasing assets. ABC Life Insurance Co., Ltd. made comprehensive use of diversified investment methods such as stocks and debts to directly or indirectly meet the financial needs of green and low-carbon fields through investing in stocks, funds, equity investment plans, bonds and other products, and effectively enhanced its green financial service capability. In the first half of 2022, green investment focused on green environmental protection, clean energy and other fields, of which CNY0.5 billion was invested in the form of equity investment plan products to support the development of clean energy projects of State Power Investment Corporation Limited. In addition, the Bank regarded green and low-carbon investment as a key business direction, and proactively built a brand of green for debt-to-equity swap investment. Through the relevant operating subsidiary, the Bank focused on investment in clean energy fields such as new energy power stations, photovoltaic module manufacturing, power batteries and natural gas, and effectively assisted the Group to implement the national goals of peak carbon emissions and carbon neutrality. As at 30 June 2022, the balance of the green investment for its own account was CNY25.44 billion, including CNY17.45 billion in clean energy, CNY3.67 billion in green upgrade of infrastructure and CNY3.19 billion in energy conservation and environmental protection. Agricultural Bank of China Wealth Management Co., Ltd. strengthened the concept of green investment and further increased investment in green bonds. As at 30 June 2022, the balance of wealth management funds invested in green bonds was CNY5.65 billion. It steadily promoted the issuance of green wealth management products and continuously improved the product layout. As at 30 June 2022, the balance of wealth management products under ABC Anxin – ESG-themed, ABC Tongxin – ESG-themed and ABC Jiangxin – ESG-themed was CNY27.7 billion.

Green Investment Banking

By adhering to the green concept in all categories of products and services of its investment banking business, the Bank was committed to developing a leading bank in green investment banking. In the first half of 2022, over CNY140.0 billion was provided to enterprises by way of green syndicated loans, green M&A loans and green bonds, which were invested into areas such as environmental governance, clean energy and transportation. The Bank underwrote the first batch of transformation bonds, the first blue bond of Guangdong-Hong Kong-Macao Greater Bay Area in the market, the first pledge of carbon's income right bond in the market, the first Renminbi sustainability-linked international syndicate loan in the market, and the first "framework issuance" sustainable development bond in the market. As a shareholder of the National Green Development Fund, the Bank actively participated in the operation of the fund and project investment.

Green Bonds

On 11 January 2022, the Bank's green bonds of USD0.3 billion were listed on the Hong Kong Stock Exchange. The net proceeds will be used to finance or refinance the eligible green assets under the green financing framework of ABC New York Branch. According to the opinion issue by Standard & Poor, ABC New York Branch's green financing framework used for this issuance is consistent with Green Bond Principles (GBP), ICMA, 2021 and Green Loan Principles (GLP), LMA/LSTA/APLMA, 2021, and the core factor "use of proceeds" was rated as "strong". Furthermore, on 2 March 2022, the Bank's green bonds of USD0.6 billion were listed on the Hong Kong Stock Exchange. The net proceeds will be used to finance or refinance the eligible green assets under the Sustainability Bond framework of ABC Hong Kong Branch. The Sustainability Bond Framework of ABC Hong Kong Branch has been granted the Second Party Certification by Sustainalytics and certified as Green Finance by Hong Kong Quality Assurance Agency.

Overseas operations

The Bank conducts its overseas operations through its overseas branches, representative offices and subsidiaries. As at 30 June 2022, the Bank had a total of 13 overseas branches, including branches in Hong Kong, Singapore, Seoul, New York, Dubai International Financial Centre (DIFC), Tokyo, Frankfurt, Sydney, Luxemburg, Dubai, London, Macao and Hanoi, and four overseas representative offices in Vancouver, Chinese Taipei, Sao Paulo and Dushanbe.

ABC International Holdings Limited and China Agriculture Finance Co., Ltd. are among the Bank's wholly-owned subsidiaries incorporated in Hong Kong. ABC International Holdings Limited engages in investment banking activities through its operating subsidiaries, primarily corporate finance, securities brokerage, principal investments and fund management. At 30 June 2022, the total assets and net assets of ABC International Holdings Limited amounted to HKD47,142 million and HKD10,751 million, respectively. The Bank has three additional overseas subsidiaries, Agricultural Bank of China (UK) Limited, Agricultural Bank of China (Luxembourg) Limited and Agricultural Bank of China (Moscow) Limited.

The Bank's overseas representative offices do not conduct business operations, and they primarily carry out liaison and information collection activities.

Products and services pricing policy

The interest rates the Bank charges on its Renminbi-denominated loans are generally regulated by the PBOC. Effective on 20 July 2013, the PBOC removed the lower limit for new loans provided by commercial banks, except for new residential mortgage loans. With respect to interest rates for residential mortgage loans, the lowest interest rates the Bank can charge on residential mortgage loans is 70 per cent. of the PBOC benchmark interest rate of the same term. Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and the Bank is permitted to negotiate the interest rates on such loans.

The PBOC promulgated the Notice of Lowering the RMB Benchmark Lending and Deposit Rates for Financial Institution and Further Promoting the Interest Rate Liberation Reform on 23 October 2015, which removed the upper limits on the deposit interest rates for the commercial bank. The Bank is permitted to provide negotiated time deposits to insurance companies, the National Council for Social Security Fund and Postal Savings Bank of China under certain circumstances. The Bank is permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and HK dollars in an amount less than U.S.$3 million or equivalent.

With respect to fee- and commission-based business, certain services are subject to government pricing guidelines, such as basic Renminbi settlement services specified by the CBIRC and the PBOC. The Bank's Asset and Liability Management Committee is responsible for determining its pricing policies. In compliance with the provisions of applicable regulatory requirements, the Bank prices its products based on various criteria, such as the risk profile of its assets, an individual customer's contribution to its business, its costs, the expected risk- and cost-adjusted returns and its internal fund pricing benchmarks. In addition, the Bank considers general market conditions and the prices for similar products and services offered by its competitors.

Currently, the Bank's tier-1 branches have implemented centralised treasury operations. Subject to the approval of the Bank's Asset and Liability Management Committee, the Bank's Asset and Liability Management Department determines the Bank's internal transfer pricing benchmarks based on a number of factors, including prevailing interest rate trends in China's capital markets, the interest rate structure of the Bank's deposits and loans, and the strategies and objectives set by the Bank's Asset and Liability Management Committee.

The Bank's Fee- and Commission-based Business Management Committee is responsible for the development of, and pricing policies applicable to, the Bank's fee- and commission-based business. In principle, the Bank's Fee- and Commission-based Business Management Committee adjusts the prices of fee-and commission-based products annually based on several factors, such as the Bank's fee collection rate and changing market conditions.

Cross-border financial service

Adhering to the national strategy of "Opening-up" and in support of the "Belt and Road Initiative", RMB internationalization and establishment of free trade zone, the Bank offered cross-border financial services including international settlement and trade financing. to support transformation and upgrading of foreign trade and investment. The Bank cooperated with China Export & Credit Insurance Corporation, policy banks and banks in areas along the Belt and Road. Supporting the development of the offshore RMB market, the Bank also focused on its cross-border RMB business. As at 30 June 2022, the total assets of the Bank's overseas branches and subsidiaries reached USD162.77 billion. For the six months ended 30 June 2022, net profit of the Bank's overseas branches and subsidiaries amounted USD0.40 billion. For the year ended 31 December 2021, net profit of the Bank's overseas branches and subsidiaries amounted USD0.77 billion.

Distribution channels

The Bank's distribution network consisted of 22,804 domestic branch and entities nationwide as at 30 June 2022 and is complemented by comprehensive electronic banking channels. The Bank provides its customers with convenient services through its multi-channel distribution network.

Offline channels

As at 30 June 2022, the Bank had 22,804 domestic branch outlets, including the Head Office, Business Department of the Head Office, three specialized institutions managed by the Head Office, four training institutes, 37 tier-1 branches (including five branches directly managed by the Head Office), 405 tier-2 branches (including business departments of branches in capital cities of provinces), 3,340 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the Head Office and business departments of tier- 2 branches), 18,962 foundation-level branch outlets (including 15,430 tier-2 sub-branches) and 50 other establishments. The Bank's head office is located in Beijing and is responsible for the overall decision-making and management of the Bank. The Bank's tier-1 branches are located in capital cities of provinces, autonomous regions and directly-controlled municipalities in China. The tier-1 branches serve as the regional head office, managing all the branch outlets in the respective regions and reporting directly to the Bank's head office. The Bank's tier-2 branches are generally located in prefectural-level cities within China's provinces and autonomous regions. The tier-2 branches report to the respective tier-1 branches in each of the regions. In addition to carrying out their own operations, the Bank's tier-2 branches are also responsible for the management of lower-tier branch outlets. The Bank's tier-1 sub-branches are primarily responsible for the business operations and management of outlets and report to the tier-2 branches directly above them. The Bank's other establishments are primarily branch outlets that provide financial services directly to customers but are not classified as any of the above categories.

The Bank's branch outlets cover all of the provincial-level administrative regions, prefectural-level cities, and almost all county-level administrative regions. The Bank believes the Bank is the only large commercial bank to have branch outlets covering all of the cities and most of the counties in China.

For the six months ended 30 June 2022, the percentage of the Bank's operating income from County Areas and Urban Areas amounted to 41.3 per cent. and 58.7 per cent., respectively. The following table sets forth, as at the dates indicated, the Bank's domestic branch outlets by region.

	As at 31 December						As at 30 June	
	2019		2020		2021		2022	
Area	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Head office[(1)]	9	0.0	9	0.0	9	0.0	10	0.0
Yangtze River Delta	3,024	13.1	3,016	13.1	3,010	13.2	3,008	13.2
Pearl River Delta	2,500	10.8	2,410	10.5	2,384	10.5	2,381	10.5
Bohai Rim	3,317	14.3	3,294	14.4	3,281	14.4	3,283	14.4
Central China	5,203	22.5	5,166	22.5	5,148	22.6	5,151	22.6
Northeastern China	2,259	9.8	2.216	9.7	2,199	9.6	2,195	9.6
Western China	6,837	29.5	6,827	29.8	6,776	29.7	6,776	29.7
Total	23,149	100.0	22,938	100.00	22,807	100.0	22,804	100.0

Note:

(1) Organizations of the Head Office include the Head Office, Business Department of the Head Office, Private Banking Department, Credit Card Center, Bills Business Department, Beijing Advanced-Level Academy, Changchun Training Institute, Tianjin Training Institute and Wuhan Training Institute.

The Bank accelerated upgrading branch outlets, standardised the image of branch outlets, established model branch outlets and wealth management centres and launched the new standard for the branches' image. The Bank has optimised the management procedures for the classification, standardisation and establishment of branch outlets. The Bank also accelerated the development and promotion of information management, intelligent management system and other transformation application systems.

The Bank focused on "Four Reductions, Two Improvements and One Modification" (i.e., reduction in areas of branch outlets, equipment, counter staff and cost, improvements in capabilities of marketing and risk management and control and modification of the Bank's operational systems and processes). All branch outlets completed intelligent transformation in 2019.

Online channels – Mobile banking

The Bank's mobile banking platform consists of both retail mobile banking and corporate mobile banking systems. Financial services offered through the Bank's mobile banking platform cover deposits, loans, transfer, investment, wealth management and credit cards. As at 30 June 2022, the Bank had 434 million personal mobile banking customers and 4.8 million corporate mobile banking customers. The Bank recorded a transaction volume of CNY39.4 trillion for its personal mobile banking customers for the first half of 2022.

Online channels – Online Banking

The Bank's internet banking platform consists of both retail internet banking and corporate internet banking systems. The Bank's retail internet banking products and services include registration by customers of other banks, online wealth management, online financing and quick authentication, while the Bank's corporate internet banking products and services include cash management, investment and wealth management and international business. As at 30 June 2022, the Bank has 422 million registered customers on personal internet banking and 10.13 million corporate internet banking customers. The Bank recorded a transaction volume of CNY143.5 trillion for its corporate financial service platforms for the first half of 2022.

Online channels – Self-service banking

The Bank optimized the business process to improve the success rate of self-service registration and promote the intelligent interaction of mobile banking and interconnection between channels. The Bank upgraded the channels including homepage and life, and optimized the information display of transfer, wealth management and other modules, which continuously improved the customer experience. As at 30 June 2022, the Bank had more than 164 million of monthly active users of mobile banking.

Remote channels

The Bank accelerated digital transformation of remote banking with remarkable advancement in the service capability of remote channels. In the first half of 2022, the Bank's all-media customer service (including voice, online, video and new media) reached 176 million customers, among which, 31.95 million calls handled by customer service staff, with a customer satisfaction rate of 99.73 per cent.

Integrated operation

The Bank established an integrated operation platform covering fund management, securities and investment banking, financial leasing, life insurance, debt-to-equity swap and wealth management business. In the first half of 2022, six of the Bank's subsidiaries namely ABC-CA Fund Management Co., Ltd., ABC International Holdings Limited, ABC Financial Leasing Co., Ltd., ABC Life Insurance Co., Ltd., ABC Financial Asset Investment Co., Ltd. and Agricultural Bank of China Wealth Management Co., Ltd., operated with regard to the Bank's strategy to achieve integrated operation.

Integrated operation enabled the Bank to (i) promote product transformation and enrich its product series, (ii) improve management of customers, (iii) enhance research and investment capabilities, (iv) meet diversified needs of customers, (v) centralise trading system to support investment operations, (vi) enhance level of risk control and improve risk management, and (vii) improve IT system and operation management system.

Consumer interest protection

The Bank integrated customer interests protection in various aspects of corporate governance and included it into its business development strategy and corporate culture. The Bank formulated or revised relevant rules on consumer interests protection. It also implemented the examination mechanism for consumer interests protection in relation to products and services to ensure fair, just and honest treatment for consumers during various stages of products and services, including design and development, pricing management and formulation of agreements. The Bank carried out the "Year of Services Improvement for Transformation" activity and focused on the financial service needs of special consumer groups. The Bank also strengthened the management on complaints of customers and advanced the implementation of the industrial standard related to classification of complaints from financial consumers. Moreover, it maintained open channels for its customers to voice, and optimized synergy of customer service systems to improve the normalization and standardization level of complaints management. The Bank responded to customers' demands promptly and promoted the effective operation of the complaint handling mechanism.

On the other hand, the Bank engaged external professional advisory agencies to take various measures including formulation of bank-wide privacy policies, improving internal management policies, improving technical protection systems and improving trainings on data security, in order to ensure the security of customer information.

FINTECH

Information technology is at the core of the Bank's competitiveness. The Bank focuses on the development of its information technology capabilities and has established an Information Technology Development Committee under its senior management. The Bank has also developed an IT development decision-making system to meet its operational needs as well as the IT management system and capabilities to provide comprehensive support to its business operations.

The Bank developed a centralised computer network system in 2006 which, through the Shanghai data centre, covers all of the Bank's domestic branch outlets except a small number of branch outlets in the Tibet Autonomous Region and links teller terminals throughout China. Only a small number of branch outlets located in the Tibet Autonomous Region have not been linked to the central network system due to a number of constraints including the lack of sufficient power and telecommunication infrastructure at these remote locations. Transactions at these branch outlets, typically small in volume, are manually recorded and then the financial accounts of these branch outlets are entered into the system on a monthly basis.

With the solid foundation of its information technology system, the Bank is able to strengthen the tracking, research and introduction of frontier technologies related to Fintech. The Bank continues to apply frontier technologies in financial technology and focused on safe production and innovation empowerment to deeply carry out its "iABC" strategy in information technology to promote the establishment of an intelligent, user-oriented and resources and capabilities integrated ABC with FinTech as its impetus, and continued to improve the scientific and technological support and empowerment level.

Fintech innovation

The Bank has set up a financial technology innovation center in Xiong'an and built an innovation incubation center and a pilot field for innovation achievements. The Bank strengthened the construction of basic capabilities of financial technology, and empowered the high-quality development of business operations. Regarding the application of Big Data technology, the Bank promoted in-depth data integration and common data accumulation and provided one-stop exclusive data services. Actively responding to the accelerated evolution of technology transformation, the Bank sped up the transformation into a new-generation technology system, built a new digital infrastructure and an IT architecture base which were future-oriented, and deepened the application of fintech to empower the high-quality development of business operations. In terms of application of big data technology, the Bank promoted in-depth data integration and common data accumulation and provided one-stop exclusive data services through the big data platform and the middle-end data platform. In addition, the Bank steadily advanced the cloud deployment of data-type applications of its branches. With regards to the application of cloud computing technology, the Bank promoted the construction of an integrated cloud platform and completed the construction of the system for technology stack of "one cloud with multiple cores". The physical nodes of the cloud platform of the Head Office exceeded 25,000 and the cloudification rate of computing resources reached 91.0 per cent. In respect of the application of AI technology, the Bank built a one-stop and whole-process knowledge graph platform, completed the construction and service of a ten-billion-level graphs asset, which were applied to Sannong, credit card, credit and other fields. The Bank built a privacy computing platform to provide privacy computing basic services for AI and BI scenarios. The Bank released its 7.3 version of mobile banking, which improved the ability of smart recommendation. In terms of the application of distributed architecture, the Bank promoted the transformation of core system to distributed architecture, with the distributed core system accounting for more than 67.0 per cent. of the trading volume during the peak trading period of the Spring Festival. The Bank established the distributed middle-end technology platform to provide technical support of high-availability, high-reliability and high-performance to its product and application. In relation to blockchain technology, the Bank promoted the construction of the blockchain cloud service platform and established a new trusted certificate system platform, which enabled it to achieve the whole-process traceability of data in the certificate chain, provide blockchain certificate scenario services and support the innovative application of digital collectible and cloud signature. As regards the application of information security technology, the Bank completed the promotion and deployment of the enterprise-level network Security Operation Center in the Head Office and 37 tier-1 branches and achieved the overall access of 590 security log sources covering 20 categories, which supported the bank-wide supervision of daily network security situation. With respect to the application of network technology, the Bank continued to upgrade the stock domain name to IPv6, explored the innovative application of "IPv6+", and built end-to-end visual SRv6 network. In relation to the application of Internet of Things and virtual technologies, the Bank initiated the bank-wide construction of Internet of Things, and set out a plan to construct Visual Reality (VR) and Augmented Reality (AR) platforms.

Improvement of technological level of operation and management

The Bank promoted the smart credit 2.0 project and launched the system of special seal for electronic loan contract, carrying out the whole process of operation electronically and shortening the time for processing a single loan. The Bank extended the application of its mobile credit system (Mobile C3), featuring mobile approval, information inquiry and onsite operation, to three branches including Tokyo, Seoul and Macao. The Bank also built a bank-wide platform for monitoring and prevention of cases, achieving early warning of and timely response to potential risks of cases.

Information system

The Bank's information system covers all aspects of its business. It consists of six application systems, including its core business system, front office application system, channel application system, internal management system, marketing analysis system and office automation system. The Bank promoted construction of the "two cities and three centers" project and established a disaster recovery system covering all important information systems. The Bank promoted network construction for channel domain covering all branch outlets, adopting technology including segment routing and software-defined WAN. The Bank also started construction of the integrated and operation platform based on the idea of "one portal (unified portal), one center (configuration center) and four platforms (platforms of monitoring, management, operation and operation and maintenance data analysis"). For the six months ended 30 June 2022, the average transaction volume per working day of the Bank's core operation system reached 1,161.0 million, while the highest daily transaction volume reached 1,353.0 million. For the year ended 31 December 2021, the average transaction volume per working day of the Bank's core operation system reached 1,020.0 million, while the highest daily transaction volume reached 1,278.0 million. The Bank's information system was sustainable in providing continuous and stable services.

IT RISK MANAGEMENT

The Bank's IT risk management is coordinated by an operational risk management committee, with responsibilities allocated to the information technology department, risk management department, audit office and internal compliance department. The scope of the Bank's IT risk management also covers security, personnel, network, research and development, operation and maintenance, emergency response and outsourcing.

The Bank has adopted IT safety security measures, including firewalls, transmission encryption, intrusion detection and centralised authentication. The Bank's Shanghai branch and the IT management department and the software research and development centre at the Bank's head office obtained the Information Safety Administration International Certification (ISO 27001) in recognition of the enhanced safety of the Bank's IT system.

In addition, the Bank has established a dedicated disaster recovery management unit and constructed a comprehensive disaster recovery management system to protect its data centre, tier-1 branches and tier-2 branches. The Bank's core production system is located at the Shanghai data centre, with the disaster recovery testing centre at Beijing serving as a disaster recovery function for the core production system and core operating data. The Bank's disaster recovery system enables its branches to link smoothly to its Beijing disaster recovery testing centre if a disaster occurs at the Shanghai data centre.

Since 2013, the Bank has launched a number of key IT projects to improve its financial services and financial management, including establishing additional channels for mobile banking and increasing the functionality of its mobile banking, corporate Internet banking and retail Internet banking platforms. The Bank furthered its globalisation strategy by completing the integration of the core overseas business systems of its overseas institutions and launching an online U.S. dollar settlement service through its New York branch. Various systems were installed to improve the management of operation, finance, risk, assets and liabilities, including the second generation centralised operation platform, centralised operation management platform, phase II of online account management, risk management system 2.0 and the enhanced asset-liability management system.

Information Technology Research and Operational Ability

The Bank's software research and development centre, located at the Bank's head office, is responsible for the implementation of major IT projects and the research and development of IT software, and has the capability to carry out demand analysis, process design and project implementation and promotion for large-scale projects.

The Bank has continued streamlining its software development procedures, improving IT product quality and enhancing its IT risk management. The Bank's software research and development centre obtained the level-3 CMMI certification at the end of 2008.

Production and operation capability. The Bank's data centre in Shanghai is responsible for supporting its business operations, production of management information, technology and business security, production data management, trading supervision and back-end processing for the Bank's overall operation and data administration. The Bank continued to integrate and improve its IT infrastructure by completing the compliance project related to the server rooms of its domestic branches and upgrading the core systems and the network of its Beijing's data centre. The Bank's disaster recovery testing centre in Beijing provides long-distance backup and emergency recovery for the core operational data in the Bank's Shanghai data centre. The Bank currently plans to establish a third data centre in northern China.

The Bank has introduced the ISO20000 IT service management system to raise the operation and maintenance standards of the Bank's operational system. Effective contingency management has also facilitated the development of the Bank's business operations.

CAPITAL MANAGEMENT

In the first half of 2022, the Bank implemented its capital plan for 2022-2024 in accordance with the requirements of the *Administrative Measures for the Capital of Commercial Banks (Provisional)*, gave full play to the restriction and guidance functions of capital on business, enhanced internal and external capital replenishment capacity, improved its long-term mechanism of capital management, maintained prudent capital adequacy, and continued to enhance the ability to serve the real economy.

As one of the global systemically important banks and national systemically important banks, the Bank followed the regulatory requirements, gradually refined the retest mechanism for the recovery and disposal plan, and constantly improved risk warning and crisis management capabilities to reduce its risk spill-over in the crises and strengthen the foundation for financial stability. The Bank closely kept track of regulatory policies, enhanced the planning and research on meeting the requirements for Total Loss Absorption Capacity (TLAC), consolidated the basis to meet regulatory requirements and enhanced its abilities of resisting the risks. The Bank continued to improve the internal capital adequacy assessment process (ICAAP), completed the internal capital adequacy assessment for 2022, optimizing the working mechanism and strengthening the foundation for capital management.

The Bank implemented advanced approaches of capital management and adopted advanced approaches of capital measurement and other approaches in the parallel implementation period to calculate capital adequacy ratio according to the requirements of the CBIRC.

Key Principles of the Bank's Capital Management

- Continue to satisfy the regulatory requirements, maintain a reasonable capital level, and align the Bank's capital adequacy level with the maximisation of shareholders' value;

- Continue to refine the Bank's economic capital-based value management system, optimise the Bank's asset mix, reasonably allocate economic capital, cover all types of risks and ensure sustainable business growth; and

- Utilise various capital instruments, refine the Bank's capital base and structure, enhance capital quality and reduce capital costs.

Management of Capital Financing

In the first half of 2022, the Bank enhanced the capital replenishment system. On the basis of capital replenishment with retained profits, the Bank proactively developed external resources for capital replenishment. The capital strength was continuously enhanced, and capital structure was further optimized while capital cost was reasonably controlled.

In February 2022, the Bank issued write-down undated capital bonds of CNY50.0 billion in the national inter-bank bond market, with the net proceeds after deducting the issuance expenses fully used to replenish its additional Tier 1 capital. In June 2022, the Bank issued Tier 2 capital bonds of CNY60.0 billion in the national inter-bank bond market, with the net proceeds after deducting the issuance expenses fully used to replenish its Tier 2 capital.

Management of Economic Capital

In the first half of 2022, the Bank constrained total capital, optimized asset structure and controlled the growth of risk-weighted assets in order to achieve capital-intensive development. The Bank continued to improve the economic capital allocation mechanism, highlighted business strategic objective transmission, continuously improved the refined management of economic capital and increased economic capital allocation in key areas, such as rural revitalization, inclusive finance, manufacturing, private enterprises, green credit, and food security. The Bank strengthened the process control of economic capital, improved the efficiency of economic capital monitoring and improved the timeliness and effectiveness of capital management policy transmission.

Capital Adequacy Ratio

In accordance with the "Capital Rules for Commercial Banks (Provisional)", the CET 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio of the Bank were 11.11 per cent., 13.28 per cent. and 17.09 per cent., respectively, as at 30 June 2022.

Capital Enhancement Mechanism

The Bank's priority approach to enhance its capital base will be through the retention of profits. The Bank may also enhance its capital base through various external alternatives, including, but not limited to, issuances of subordinated bonds, convertible bonds or hybrid capital bonds, conducting rights offerings or private placements, and certain other alternatives approved by the CBIRC.

Capital Management Measures

- Strengthen Profitability and Improve Internal Capital Generation Capability. The Bank plans to enhance its profitability through various measures including accelerating business operations transformation, promoting revenue diversification and increasing operating efficiencies. In addition, the Bank seeks to strengthen internal capital generation capability through setting a reasonable dividend to payout ratio.

- Explore Capital Enhancement Tools and Expand Capital Enhancement Channels. The Bank seeks to utilise the various tools and channels available under the current regulatory framework and continues to explore new capital enhancement tools and expand its capital enhancement channels.

- Refine Capital Control Mechanism and Enhance Capital Allocation Efficiency. The Bank seeks to strengthen capital budgeting management, increase its focus on performance evaluation based on economic capital metrics such as Economic Value Added ("**EVA**") and Risk-adjusted Return on Economic Capital ("**RAROC**"), promote awareness of capital constraints and control the growth of risk-weighted assets through economic capital management. The Bank also plans to refine its economic capital allocation management, adjust its business and asset mix and prioritise the development of business lines that provide higher overall return and require lower capital to reduce capital consumption.

- Enhance Risk Management Capability and Establish Capital Adequacy Assessment Procedures. The Bank has established and continues to refine its capital adequacy assessment procedures, which form an important component of the Bank's internal management and decision-making. The Bank plans to accelerate its utilisation of quantitative risk management measurement techniques and refine economic capital measurement. Adequate capital will be held against its major risk exposures.

- Strengthen Capital Planning Management and Maintain Adequate Capital Base. Based on changes in the macroeconomic and regulatory environment, as well as the progress of its implementation of Basel II/Basel III and its business development needs, the Bank plans to actively adjust its capital planning to ensure that the size of its capital base is commensurate with the future growth of its business and its risk exposure.

COMPETITION

The Bank faces significant competition in its principal areas of business from other commercial banks and financial institutions in China. The Bank currently competes primarily with the Large Commercial Banks and National Joint Stock Commercial Banks. The Bank also faces increasing competition from other financial institutions, including city commercial banks and foreign banks operating in China. The Bank's competition with other commercial banks and financial institutions in China primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, reach of distribution network, brand recognition and information technology capabilities.

In the County Areas, the Bank's competitors vary across geographical regions as a result of the differences among regions in terms of economic development and maturity of the financial market. In addition to other Large Commercial Banks, National Joint Stock Commercial Banks, city commercial banks and foreign-invested bank operating in China, the Bank primarily competes with local rural cooperatives, rural commercial banks, Postal Savings Bank of China and other agriculture-related financial institutions in the County Areas. With the easing of regulatory restrictions on access to the County Area banking market, an increasing number of township banks, loan companies, rural mutual cooperatives and other new types of rural financial institutions have been established in the County Areas. In addition, various financial institutions have strengthened their penetration in the County Area banking market. As a result, the Bank faces increasingly intense competition in the County Areas.

In addition, the Bank faces competition from non-banking institutions such as securities firms and insurance companies in providing financing services to the Bank's customers.

The Bank's competition with foreign-invested financial institutions will likely intensify in the future. In 2006, pursuant to its WTO commitment, the PRC government eliminated measures restricting the geographic presence, customer base and operational licenses of foreign-invested banks operating in China. In addition, China's Closer Economic Partnership Arrangement with Hong Kong and Macau allows smaller banks from those jurisdictions to operate in the PRC, which has also increased competition in the PRC banking industry.

See "*Risk Factors – Risks Relating to the Banking Industry in China – The Bank faces intense competition in China's banking industry as well as competition from alternative corporate financing and investment channels*".

In response to the competitive environment, the Bank intends to continue implementing its strategies to differentiate itself from its competitors and compete effectively in the PRC commercial banking industry.

EMPLOYEES

The Bank had 450,299 employees as at 30 June 2022. The number of the Bank's employees as at 30 June 2022 included 12,705 employees at its Head Office, 722 employees at its overseas branches, subsidiaries and representative offices and 9,151 employees at its subsidiaries of integrated operations and the rural banks.

The Bank contributes to its employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations.

The Bank's overall remuneration level was determined in accordance with factors including the efficiency of the Bank and the total annual remuneration was reviewed and approved by the Board of Directors of the Bank, as required by relevant national regulations. The total remuneration allocated to institutions at all levels under the Bank was determined on the basis of their operating efficiency, performance assessment result and completion status of key tasks. Performance assessment indicators include efficiency indicators, risk indicators and other sustainable development indicators, which comprehensively reflected their long-term performance and risk profiles.

The Bank provides training programmes to its employees to improve their professional competence and skills.

The Bank's training programmes mainly include:

- management training programmes for senior management of the Bank's head office, tier-1 branches and tier-2 branches;

- professional training programmes for professionals in areas such as investment and asset management, risk management, financial accounting, product development, legal and compliance and information technology;

- overseas training programmes for employees to gain exposure to international practice; and technical training programmes for skilled employees.

The Bank has also been developing its job qualification system whereby the Bank will define the required qualifications for each position throughout the Bank's operational processes and arrange appropriate training.

The Bank's labour union represents the interests of the employees and works closely with the Bank's management on labour-related issues. As at the date of this Offering Circular, the Bank has not experienced any strikes or other material labour activities that have interfered with its operations, and the Bank believes that the relationship between the Bank's management and the labour union has been good.

PROPERTIES

The Bank is headquartered in Beijing, PRC.

The Bank has not obtained the title certificates for some of the properties which it holds and occupies in the PRC. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that it has not yet obtained, and it plans to cooperate closely with the local land and property management authorities to expedite such applications and obtain the relevant title certificates as soon as practicable. The Bank has been unable to obtain some of these title certificates due to various title defects or for other reasons. While there may be legal impediments to the Bank obtaining some of these title certificates as a result of these title defects, the aggregate gross floor area of these properties with defective titles is immaterial as compared to all of the properties owned by the Bank. The Bank believes that since the relevant properties are situated in different provinces in the PRC, the risk of losing its ability to use all such properties at any one time is comparatively low. It also believes that it will be able to obtain replacements in nearby locations, and accordingly, it is not expected that any relocation will have any material adverse impact on the operations and financial position of the Group as a whole. For the leased properties in the PRC, the relevant lessors have not provided valid title certificates or consent to lease some of the properties, which are mainly used for commercial purposes, including outlets, offices and ATMs. As the owner of the properties, the lessors are responsible for applying for the relevant title certificates or providing the Bank the consent to lease the properties. In respect of this, the Bank has proactively procured these lessors to apply for the relevant title certificates or provide the Bank the consent to lease the properties. The Bank is of the view that most of these occupied leased properties can, if necessary, be replaced by other comparable alternative premises without any material adverse impact on its operations.

LEGAL AND REGULATORY PROCEEDINGS

Licensing Requirements

As at 30 June 2022, the Bank had obtained the financial operating licenses required for conducting its current businesses.

Legal Proceedings

The Bank is involved in certain legal proceedings in the ordinary course of its business. Most of these proceedings involve enforcement claims initiated by the Bank to recover payments on its nonperforming loans. The legal proceedings against the Bank include actions relating to customer disputes and claims brought by its counterparties on contracts related to its banking operations. Please refer to the risk factor titled "*Risk Factors – Risks relating to the Bank's business – The Bank may be involved in legal and other disputes from time to time arising out of its operations and may face potential liabilities as a result.*" for further information.

As at the date of this Offering Circular, the Bank was not involved in any litigation, arbitration or administrative proceedings, and is not aware of any such litigation, arbitration or administrative proceedings, whether pending or threatened, which are or might be material in the context of the issuance of the Notes.

As at 30 June 2022, the value of the claims of the pending litigations or arbitrations in which the Bank was involved as a defendant, a respondent, or a third person amounted to CNY2,815.0 million. The management of the Bank believes that the Bank has fully accrued provision for potential losses arising from the aforesaid litigations or arbitrations, and they will not have any material adverse effect on the Bank's financial position or operating results.

Regulatory Reviews and Proceedings

The Bank is subject to inspections and examinations by the relevant PRC regulatory authorities, including the PBOC, CBIRC, MOF, CSRC, CIRC, SAIC, SAFE, NAO, SAT and their respective local offices. These audits and examinations have previously resulted in findings of incidents of noncompliance and the incurrence of certain penalties. Although these incidents and penalties did not have any material adverse effect on the Bank's business, financial condition or operations results, the Bank has implemented improvement and remedial measures to prevent the reoccurrence of such incidents. The Bank believes that, save as disclosed in this Offering Circular, there were no other material breaches or material incidents of regulatory non-compliance.

RISK MANAGEMENT

Overview

The Bank has adopted a prudent risk management strategy, seeking to balance risks and returns with sustainable growth and sound asset quality to achieve an appropriate level of risk-adjusted returns and capital adequacy.

The objectives of the Bank's risk management are:

- continuously enhancing its corporate governance and risk management to ensure that its Board of Directors and senior management as well as its risk management personnel throughout its organisational structure follow its risk management strategies and implement comprehensive risk management;

- establishing a comprehensive, independent and vertically-integrated risk management organisational framework and developing a risk management organisational structure with a clearly- defined division of responsibilities;

- implementing robust risk policies and procedures to ensure that its risk management function covers all of its business lines, products and personnel;

- developing and applying advanced risk management tools and methodologies to accurately identify and measure risks and to ensure the prompt communication of information throughout various levels of its organisational structure; and

- cultivating a sound risk management culture through continuous management reinforcement, rigorous implementation of risk management policies and management accountability, and bank-wide in-depth employee training.

Risk management initiatives in recent years

Prior to 1996, the Bank was a state-owned specialised bank and the Bank's risk management capabilities were limited. In the middle to late 1990s, the Bank began to operate on a commercial basis and started to manage the Bank's risks more proactively.

In 2007, the Bank established the Risk Management Department at its head office and began to implement its centralised risk management strategy. In 2009, the Bank established a comprehensive risk management organisational structure. Under the principle of separating the supervision function from the formulation and implementation of risk management policies, the Bank has defined risk management responsibilities and related reporting lines of its Board of Directors and its specialised committees, senior management and the specialised committees under their supervision, as well as its various departments with risk management responsibilities.

Since 2013, the Bank has continued to refine its risk management policy system. The Bank formulated a risk management plan for 2013 to 2015 and revised its risk evaluation method, as well as the working rules of the Risk Management Committee. The Bank also strengthened its risk management systems in various specific aspects, and developed or revised policies and measures such as procedures for loan defaults identification, risk assessment of County Area credit products, market risks monitoring and reporting, risk classification in the wealth management business and country risk management. In addition, the Bank formulated the objectives and implementation plans for the three pillars under the Capital Rules for Commercial Banks (Provisional) and the administrative measures for Internal Capital Adequacy Assessment Process (ICAAP), and conducted its 2015 internal capital adequacy assessment.

Since 2015, the Bank has continued to refine its risk management policy systems. For credit risk, the Bank formulated administrative measures on consolidated credit to group customers and administrative measures on warning for the tolerance of rural non-performing loans, and revised industry-specific credit policies, the administrative measures on loans for mergers and acquisitions and the administrative measures on commercial housing mortgage loans to corporate customers. In terms of market risk, the Bank formulated policies regarding annual treasury transactions and investment and market risks management, and revised the administrative measures on risk management of wealth management business with fixed income asset portfolios. In terms of operational risk, the Bank revised the reporting standard of the operational risk events.

The Bank believes that the implementation of the foregoing risk management strategy and initiatives has led to an enhanced operating framework, improved risk management capabilities and a rigorous risk management culture.

Comprehensive Risk Management System

Comprehensive risk management refers to the timely identification, measurement, monitoring, control and reporting of all types of risks in the business operation through integrating various factors, such as risk appetite, policies and rules, organisations, tools and models, data systems and risk culture, and complying with the principles of comprehensive coverage, whole-process management and overall participation, so as to ensure effective risk management of the Bank in decision-making, implementation and supervision processes.

In the first half of 2022, faced with complex and grim internal and external situations, the Bank continued to improve its comprehensive risk management, actively and prudently prevented and resolved all kinds of risks, and kept the major material risks under control. The Bank revised the Group's risk appetite and comprehensive risk management strategies, and implemented the strategic guidance of serving major national strategies and supporting the development of real economy. The Bank enhanced the credit risk management in key areas, and strengthened the disposal of non-performing loans, maintaining the stability of its asset quality. The Bank strengthened the integrated management and control of market risk across the Group, enhanced the monitoring of market risk exposure limits, so that financial market business operated smoothly. The Bank strengthened the prevention and control of operational risk, continuously improved the management mechanism of prevention and control of cases of violations, enhanced IT risk management, and promoted the overall pandemic prevention and business continuity management. The Bank optimized and upgraded the risk data marts, risk report and management platform, improving the Group's capability for effective aggregation of risk data and risk reporting. The Bank prepared for the implementation of new regulations on capital supervision, and orderly promoted the project construction of new measurement methods for credit risk, market risk and operational risk.

Risk Appetite

Risk appetite is a term that refers to the levels and types of risks acceptable to and tolerable for the Bank as determined by the Board of Directors in order to achieve the strategic targets of the Bank, which depends on the expectations and constraints of its major stakeholders, external operating environment and actual conditions of the Bank. The Bank adopts a prudent risk appetite, operate strictly in compliance with laws and regulations, and insist on maintaining a balance among capital, risks and gains, as well as consistency in security, profitability and liquidity.

The Bank is neither aggressive nor conservative in risk bearing. Through undertaking an appropriate level of risk and adopting proactive and effective management, the Bank seeks to achieve moderate returns and maintain sufficient risk provisions and capital adequacy to cover risk losses. The Bank continues to improve the comprehensive risk management system, proactively implement advanced approaches of capital management, and maintains good regulatory ratings and external ratings, to provide assurance for realizing its strategic objectives and business plans.

Risk Management Organisation Structure

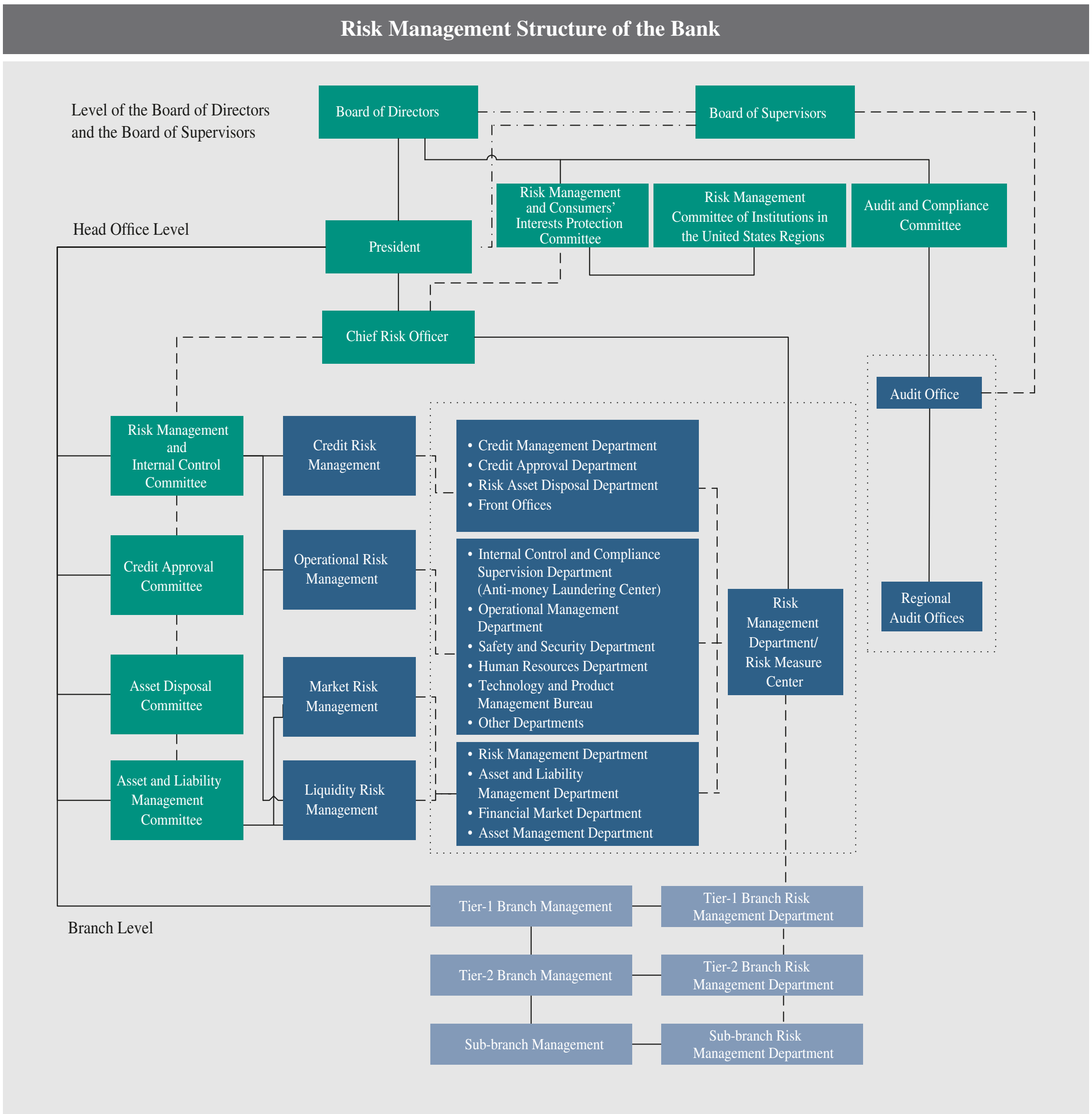
The Board of Directors assumes the ultimate responsibility for risk management. The Risk Management and Consumers' Interests Protection Committee, the Audit and Compliance Committee and the Risk Management Committee of Institutions in the United States Regions under the Board of Directors perform the relevant risk management functions, review the key risk management issues and supervise and evaluate the establishment of risk management system and the risk condition of the Bank.

The senior management is the organizer and executor of risk management of the Bank. Under the senior management, the Bank has various risk management committees with different functions, including Risk Management and Internal Control Committee, Credit Approval Committee, Asset and Liability Management Committee and Asset Disposal Committee. Among them, the Risk Management and Internal Control Committee is primarily responsible for organizing and coordinating risk management and compliance management across the Bank, considering and approving material risk management and compliance management issues.

The Board of Supervisors is responsible for risk management supervision. It supervises and inspects on due diligence of the Board of Directors and the senior management in risk management and urges them to make rectifications. It includes relevant supervision and inspection information into the work report of the Board of Supervisors and regularly reports to the shareholders' general meeting.

Based on the principle of "overall coverage", the Bank established the "matrix" risk management organizational system and the "Three Lines of Defense" for risk management comprised the risk bearing departments, risk management departments and internal audit departments. In 2021, the Bank further promoted the integration of risk management in the parent company and the subsidiaries as well as of the domestic and overseas institutions, and optimized the management frameworks of credit risk, market risk and operational risk.

Please see below the Bank's risk management organisation structure as at 30 June 2022:



Risk Management Rules System

In 2021, the Bank continued to refine its risk management policies system. In terms of comprehensive risk management, the Bank revised the Group's risk appetite and comprehensive risk management strategy. In terms of credit risk management, the Bank revised the credit management measures for corporate customers and group customers, formulated the management measures for internet loans, to improve the credit policies system. In terms of market risk management, the Bank formulated opinions on strengthening risk management of financial derivatives business. In terms of operational risk management, the Bank revised the basic policies for operational risk management, set up rules for separation of duties of incompatible positions; revised the basic policies for compliance management, inspection management measures, and internal control evaluation measures. In terms of other individual risks, the Bank formulated measures for model risk management and implementation rules for model life cycle management; revised measures for reputation risk management, and formulated measures for financial service management in response to emergencies, country risk management and control strategy and opinions on strengthening legal risk management of subsidiaries. The Bank updated risk management policies for non-retail customer ratings, asset risk classification, industrial credit limits, capital transaction and market risks, inter-bank and agency distribution business as well as information technology, and performed risk management on a daily basis.

Risk Analysis Report

The Bank closely monitor its credit risks, market risks and liquidity risks through its risk analysis and reporting. The Bank focuses on risk identification, monitoring and pre-warning and takes into account changes in macro-economic situations, national industrial and regulatory policies. In 2021, in light of the complex economic and financial situation, the Bank comprehensively analyzed various risk profiles, carefully studied trends of policies, market and technology development, strengthened forward-looking analysis of the risk profile, enhanced the risk analysis of key regions, industries, customers and businesses, identified risk factors, and formulated targeted suggestions on management and control.

Credit Risk

Credit risk is the risk of economic loss arising from the failure of counterparty to fulfil its obligations to perform contractual liabilities. The Bank's credit risk is primarily originated from loan portfolios, investment portfolios, guarantee business and various other on- and off-balance sheet credit risk exposures.

Credit Risk Management

The Bank manages credit risk through a variety of methods, including but not limited to streamlining its credit approval process, establishing bank-wide standardised authorisation and credit extension management system, monitoring risk exposure and borrower concentrations and mitigating credit risk through the use of collateral and other arrangements. In 2021, the Bank implemented the state macro-control policies, improved the establishment of credit risk management system, strengthened the risk prevention and control in key areas, and diversified the channels for collection and disposal of non-performing loans, thus maintaining its assets quality stable.

Credit Risk Management Structure

The structure of the Bank's credit risk management mainly comprises the Board of Directors and its Risk Management and Consumers' Interests Protection Committee, the senior management and its Risk Management and Internal Control Committee, Credit Approval Committee, Asset Disposal Committee, as well as Credit Management Department, Credit Approval Department, Risk Management Department and various front offices, forming a credit risk management structure characterized with centralized and unified management and multi-level authorization.

Risk Management of Corporate Banking Business

The Bank refined the credit policy system. The Bank formulated comprehensive policies such as the annual credit policy and County Area Banking and Inclusive Finance credit policy. The Bank formulated or revised the credit policies for computer manufacturing, air transportation, education, photovoltaic, liquor and other industries. The Bank formulated differentiated regional credit policies, and promoted refined portfolio management.

The Bank strengthened credit risk management in key areas. The Bank maintained the control of energy-intensive and high-polluting industries, adhered to the principle of "ensuring the development of certain areas while restricting the growth of others" and "supporting the development of certain areas while containing the development of others". The Bank satisfied rational financing needs of the coal power, steel, non-ferrous metals and other manufacturers of energy-intensive and high-pollution industries, and would not blindly withdraw or cut off loans. The Bank firmly reduced or cut off loans granted to energy-intensive and high-polluting customers which cannot meet or rectify to comply with the energy consumption and emissions standards. Adhering to the positioning of "houses are built to be inhabited, not for speculation", the Bank implemented the requirements for prudent management of real estate financing, strengthened the management of real estate loans, focused on supporting the construction of affordable housing, rental housing and ordinary commercial housing, satisfied the reasonable financing needs of the real estate market, and maintained a basically stable concentration rate of real estate loans. The Bank steadily provided financial services to "guarantee the delivery of property, people's livelihood and stability", and actively promoted the risk mitigation and disposal of real estate enterprises through measures such as project mergers and acquisitions, so as to promote the virtuous cycle and healthy development of the real estate industry.

The Bank improved the credit risk management system for internet loans. The Bank issued the Measures for Administration of Internet Loans, improved the management mechanism for cooperation institutions of internet loan business, optimized the design of internet loan products, and strengthened the risk management of key products.

The Bank strengthened post-loan management and the collection and disposal of non-performing assets. The Bank strengthened the management of special mention loans, enhanced risk monitoring, and effectively reduced the risk of deterioration of special mention loans. The Bank conducted deferred loan risk management properly. The Bank strengthened the credit risk monitoring of group customers with large loan balance, and actively and steadily promoted the risk mitigation of large amount customers. The Bank strengthened the disposal of non-performing loans. The Bank carried out the disposal strategies of more collection, more write-offs, more restructuring and prudent transfer in batches, and strengthened the disposal of loans in large amount.

Risk Management of Retail Banking Business

The Bank carried out the assessment, evaluation and data analysis of the Bank's centralized operation center for retail loans, and promoted the refined management of the centralized operation center for retail loans. The Bank promoted the connection between the retail credit business and the real estate registration system, and took advantage of online processing to improve the level of collateral management. The Bank carried out asset quality management in the dimension of customer managers, and improved the compliance operation level of customer managers. The Bank promoted the digital transformation of personal loan business, optimized and improved the system functions of personal loan use control and anti-fraud, and continuously improved the capability of smart risk control on personal loan. The Bank strengthened overdue loan collection management and write-offs, accelerated disposal of retail non-performing assets, with the quality of personal loan assets continuously improved.

Risk Management of Credit Card Business

Adhering to a prudent risk appetite, the Bank continued to promote the construction of an intelligent, differentiated, intensive and integrated credit card smart risk control system. At the pre-loan stage, the Bank strengthened precise credit granting, deepened differentiated management of regions, products and customer groups, and improved the antifraud business system for credit access to effectively control incremental risks. At the loan-processing stage, the Bank strengthened system support, consolidated the foundation for risk management and control, and strengthened early identification of risks to effectively manage and control existing risk exposures. At the post-disbursement stage, the Bank improved the integrated collection system, continued to promote write-offs and asset securitization, and improved the effectiveness of collection and disposal. The quality of credit card assets continued to be at the forefront of the industry.

Risk Management of Treasury Business

The Bank's treasury operations involve investments in treasury bonds, government bonds, financial institution bonds, corporate bonds, commercial paper, medium-term notes, and asset-backed securities. The Bank conducts credit risk management in respect of its treasury operations primarily through managing credit lines for counterparties. The Bank refined the risk management measures for treasury business by improving the whole-process risk management mechanism and the management of credit bond before, during and after investment. The Bank monitored constantly the risk profiles of credit customers and counterparties in relation to its existing treasury business, updated the list of existing credit customers that required special attention in a timely manner and dynamically adjusted the measures to address risks. The Bank monitored the transaction prices related to financial market business and continued to establish the unified platform for management of market risk exposure limits.

The Bank strictly implemented the compliance requirements of anti-money laundering, improved the mechanism for financial consumer interests protection and customer complaints handling. The Bank promoted the level of products online and risk control and the second phase construction of the global platform project. The Bank improved the system of integrated risk monitoring and reporting by the Group for treasury business and established the monthly risk reporting and sharing mechanism of the subsidiaries and overseas branches for treasury business.

Loan Risk Classification

The Bank formulated and refined the loan risk classification management policies in accordance with the Guidelines of Loan Credit Risk Classification issued by the CBIRC. The Bank comprehensively assessed the recoverability of loans when due and classified the loans by taking into account of factors including the borrower's repayment ability, repayment record, willingness to repay the loan, profitability of the loan project, and the reliability of the secondary repayment sources.

The Bank adopted two classification management systems for loans: the five-category classification system and the 12-category classification system. The Bank managed corporate loans mainly with 12-category classification system. Comprehensive evaluations of customer default risk and debt transaction risk objectively reflected the risk level of loans. The Bank made evaluations with more details in preparing the annual classification policies at the beginning of every year to specify the requirements for classification standards and management of loans to core corporate customers and thus improving the foreseeability and sensitivity of risk identification. The Bank managed retail loans with the five-category classification system which automatically classified risks mainly based on the length of period by which payments of principal or interest were overdue and the types of collaterals, allowing for a more objective risk assessment. The Bank classified large retail loans to private businesses manually on a quarterly basis to enhance risk sensitivity. In addition, the Bank adjusted the classification timely based on the risk information collected in the credit management to reflect loan quality objectively.

Market Risk

Market risk refers to the risk of losses in the on- and off-balance sheet businesses of banks as a result of an adverse change in market prices. Market risk comprises, but not limited to, interest rate risk, exchange rate risk, stock price risk and commodity price risk. The Bank is exposed to market risks, primarily including interest rate risk, exchange rate risk and commodity price risk. The Bank's organizational structure of market risk management comprises the Board of Directors and its Risk Management and Consumers' Interests Protection Committee, the senior management and its Risk Management and Internal Control Committee, the Risk Management Department, the Asset and Liability Management Department and other departments (institutions) bearing market risks.

In the first half of 2022, the Bank formulated the market risk management policy, clarifying the market risk management requirements and access standards for trading and investment business of the Bank. The Bank continuously improved the capital measurement and limit calculation functions of market risk management system, carried out comprehensive verification of Internal Models Approach, and optimized the market risk measurement model and system. The Bank focused on conducting access review for new products to ensure that risks of new products are controllable before they are launched.

The Bank's market risk exposure limits are classified into mandatory limits and instructive limits. The Bank classified all of the on- and off-balance sheet assets and liabilities into either the trading book or the banking book. The trading book includes positions in the financial instruments and commodities held for trading or hedging against the risk of other items in the trading book. Any other positions are classified into the banking book.

Market Risk Management for Trading Book

The Bank managed the market risk of the trading book through various approaches such as Value at Risk (VaR), exposure limit management, sensitivity analysis, duration analysis, exposure analysis and stress testing.

The Bank adopted a historical simulation method with a confidence interval of 99% based on a holding period of one day and historical data for 250 days to measure the VaR for the trading book of the Head Office and domestic and overseas branches of the Bank. Based on the different circumstances of domestic and overseas markets, the Bank selected applicable parameters for the models and risk factors in order to accurately reflect the levels of market risks. The Bank verified the accuracy and reliability of the risk measurement models through data analysis, parallel modelling and back-testing.

In the first half of 2022, since the scale of bond portfolio decreased slightly as compared to the same period of the previous year, the VaR of interest rate risk was lower than that of the same period of the previous year. As the exposure of gold portfolio was controlled within a small scale, the VaR of exchange rate risk was lower than that of the same period of the previous year. As the exposure of silver portfolio was lower than that of the same period of the previous year, the VaR of commodity risk declined slightly.

Market Risk Management for Banking Book

The Bank managed market risk of the banking book through comprehensive use of technical measures such as exposure limit management, stress testing, scenario analysis and gap analysis.

Interest Rate Risk Management

Interest rate risk refers to risk of losses in income or economic value or of the banking book as a result of adverse changes of the interest rate level or term structure. The interest rate risk of the banking book of the Bank primarily arises from the mismatch of the maturity or re-pricing dates of interest-rate-sensitive assets and liabilities in the banking book and the inconsistencies in the change of the benchmark interest rate on which assets and liabilities are based.

Since LPR reform of the PBOC, the Bank, according to regulatory requirements, implemented relevant policies, by upgrading its business system, revising standard loan contract, improving the pricing mechanism for internal and external interest rates, and comprehensively promoting application of LPR, accomplishing in general the application of LPR loan pricing method to the whole process. After the reform of LPR, the benchmark interest rate was more connected with the market interest rate and the frequency and range of fluctuation both increased. The Bank strengthened monitoring and forecast of the external interest rate environment, timely adjusted the pricing strategies for internal and external interest rates, improved the product portfolio and term structure of assets and liabilities and actively adjusted the risk structure by using interest rate options, so as to reduce the adverse effect of interest rate changes on its economic value and income.

In the first half of 2022, the Bank paid close attention to the macro economy and the trend of interest rates, and made forward-looking deployment of the term structure and duration management of assets and liabilities. The Bank continuously optimized the internal and external pricing management mechanisms to guide the smooth and orderly development of various businesses. The Bank optimized the interest rate risk limit system in due course to strengthen the interest rate risk management and control of business lines and investment portfolios. During the first half of 2022, all the interest rate risk indicators of the Bank were controlled within the scope of regulatory requirements and management objectives, and the Bank's interest rate risk of the banking book remained overall controllable, as shown by the stress test.

Exchange Rate Risk Management

Exchange rate risk refers to the risk arising from currency mismatches of assets and liabilities of banks. Exchange rate risk mainly consists of the trading exchange rate risk that could be hedged, and the exchange rate risk caused by assets and liabilities (the "**non-trading exchange rate risk**"), which can hardly be avoided in operations. Through exposure limit management and the management of the currency structure of its assets and liabilities, the Bank seeks to ensure that the adverse impact of exchange rate fluctuations falls within an acceptable range.

In the first half of 2022, the Bank regularly carried out foreign exchange risk exposure monitoring, exchange rate sensitivity analysis and stress testing, continued to improve the measurement of exchange rate risk and flexibly adjusted the trading exchange rate risk exposures, while maintaining non-trading exchange rate risk exposures stable. Therefore, the bank-wide exchange rate risk exposure was controlled within a reasonable range.

Liquidity Risk

Liquidity risk refers to the risk of being unable to timely acquire sufficient funds at a reasonable cost by commercial banks to settle amounts due, fulfil other payment obligations and satisfy other funding needs during the ordinary course of business. The major factors affecting liquidity risk include negative impacts of market liquidity, deposit withdrawal by customers, loans withdrawal by customers, imbalance between asset and liability structures, debtor's default, difficulty in asset realization, weakening financing ability, etc.

Liquidity Risk Management

Liquidity Risk Management Governance Structure

The liquidity risk management governance structure of the Bank consists of a decision-making system, an execution system and a supervision system, among which, the decision-making system comprises the Board of Directors and its Risk Management and Consumers' Interest Protection Committee and the senior management; the execution system comprises liquidity management department, asset and liability business department and information and technology department, etc.; and the supervision system comprises the Board of Supervisors, the Audit Office, the Internal Control and Compliance Supervision Department and the Legal Affairs Department. The aforesaid systems perform their respective decision-making, execution and supervision functions based on the division of responsibility.

Liquidity Risk Management Strategy and Policy

The Bank adhered to a prudent liquidity management strategy. The Bank formulated its liquidity risk management policy pursuant to the regulatory requirements, external macroeconomic environment and its business development. The Bank effectively maintained balance among liquidity, security and profitability, on condition of the guaranteed security of liquidity.

Liquidity Risk Management Objectives

The objectives of the Bank's liquidity risk management were to effectively identify, measure, monitor and report liquidity risk by establishing a scientific and refined liquidity risk management system, to promptly fulfil the liquidity needs of assets, liabilities and off-balance sheet businesses and perform the payment obligations under normal business environment or under operational pressure; and to effectively balance both capital efficiency and security of liquidity while preventing the overall liquidity risk of the Group.

Liquidity Risk Management Method

The Bank seeks to improve its liquidity management through various measures, including focusing on maintaining stable sources of funding and increasing its core deposits, enhancing its marketing efforts, increasing its total deposit amount, securing the continued growth in deposits to meet its liquidity needs and maintaining its capital raising capabilities, and improving the diversity of assets and maintaining an appropriate mix of short-, medium- or long-term assets. The Bank paid close attention to changes in economic and financial situation, monetary policies, and market liquidity, continued to monitor its bank-wide liquidity condition. The Bank strengthened the asset-liability management to mitigate risks related to mismatch of maturity. The Bank secured the sources of core deposits and facilitated the use of financial instruments, to keep its financing channels smooth in the market. The Bank improved the liquidity management mechanism through strengthening the monitoring, early warning, and overall allocation of liquidity position. With a moderate reserve level, the Bank satisfied various payment demands. In addition, the Bank refined the functions of the liquidity management system to improve its electronic management.

Stress Testing Situation

Based on the market condition and operation practice, the Bank set liquidity risk stress scenarios based on full consideration of various risk factors which may affect the liquidity. The Bank conducted stress testing quarterly. According to the testing results, under the prescribed stress scenarios, the Bank have passed all the shortest survival period tests as required by regulatory authorities.

Main Factors Affecting Liquidity Risk

Factors affecting the Bank's liquidity include the term structure of the Bank's assets and liabilities and changes to banking industry policies, such as changes in the requirements relating to loan-to-deposit ratio and statutory deposit reserve ratio. The Bank is exposed to liquidity risk primarily in the funding of its lending, trading and investment activities, as well as in the management of its liquidity positions. In the first half of 2022, the internal and external liquidity situations faced by the Bank were complicated and ever-changing. The monetary policies in major developed economies were tightened, overseas inflationary pressures continued to rise, and domestic economic performance experienced certain fluctuations. The volatility of the Bank's liabilities increased, and the growth of long-term assets brought certain pressure on the maturity mismatch management and structural optimization of assets and liabilities, making it more difficult to balance liquidity, security and profitability.

Operational Risk

Operational Risk Management

Operational risk refers to the risk of loss resulting from inadequate or problematic internal procedures, from human or information technology system related factors, or from external affairs, including legal risk, but not including strategy risk or reputational risk.

In the first half of 2022, the Bank re-examined operational risk appetite and operational risk management strategy, revised the operational risk monitoring and reporting rule, initiated the upgrade of the operational risk management system, carried out the assessment and identification of operational risk events, and improved the operational risk management system. The Bank deepened the application of operational risk management tools, formulated annual operational risk assessment plans, carried out operational risk assessment for new businesses, new products and new systems on a regular basis, improved the system of key risk indicators, and strengthened the operational risk events reporting and analysis reporting. The Bank strengthened the operational risk management in key areas, highlighting preventive control, and continuing to enhance case risk governance. The Bank strengthened IT risk management, and formulated new business continuity plan. The Bank revised the management measures for business outsourcing and detailed rules for the implementation of science and technology outsourcing to standardize outsourcing risk management.

Legal Risk Management

Legal risk refers to any risk of banks suffering from adverse consequences including legal liabilities, loss of rights and reputational damage due to the breach of laws, administrative rules and regulations, or terms of contracts of its business operations and legal failure to duly regulate and exercise rights or external legal factors. Legal risk includes risk directly resulted from legal factors, as well as the risk associated with other forms of risks.

In the first half of 2022, the Bank continued to promote law-based governance. The Bank adopted the "three lines of defense" of legal risk management, and optimized the process and mechanism of legal risk management. The Bank strengthened legal services and support in areas such as digital transformation, rural revitalization, Green Finance, privacy and data security and inclusive finance. The Bank prevented the risk of intellectual property infringement and ensured business and product innovation. The Bank made best efforts to ensure that "bring all legal actions so long as they meet the threshold for standing", improved the diversified dispute resolution mechanism, and strengthened the rights protection of collection. The Bank prudently handled sensitive and major legal disputes, prevented and mitigated major risks and actively safeguarded the rights and interests of the Bank. The Bank enhanced legal risk management in comprehensive and international business, and built an integrated domestic and overseas legal risk management mechanism for the Group. The Bank comprehensively promoted the publicity and implementation of the Civil Code, the Personal Information Protection Law and other important laws, and made corresponding adjustments to its systems, contracts and products in a timely manner. The Bank promoted the rule of law culture by carrying out criminal legal risk education of employees and enhancing staff awareness.

Reputational Risk

Reputational risk refers to the risk resulting from negative feedback from related stakeholders due to the operation, management or other actions of the Bank or external events.

In the first half of 2022, the Bank improved the management basics system, established the pre-evaluation mechanism of reputational risk, improved the linkage mechanism, organized and carried out the reputational risk simulation drill, in order to improve the reputational risk management level of the Group. The Bank proactively monitored and addressed the public sentiment at important times and key events, and promptly investigated and rectified the prominent problems.

Country Risk

Country risk represents the risk due to changes and incidents occurred in the economy, politics and society of a specific country or region, which results in the borrowers or debtors in that country or region incapable of or unwilling to pay their debts owed to the Bank or otherwise leads to business losses to the Bank in that country or region or other losses to the Bank.

The Bank adopted country risk rating, limit control, exposure monitoring, provision for asset impairment, stress testing and other tools and methods to manage country risk. In the first half of 2022, the Bank strengthened country risk monitoring, and made sufficient provisions for country risk impairment by taking into account the impact of country risk on asset quality, in light of changes in the external situation.

Risk Consolidation

In the first half of 2022, the Bank continued to improve the risk consolidation management of the Group, and promoted the integration of risk management of the Bank and subsidiaries. The Bank guided the subsidiaries to revise and refine the risk appetite statements and risk management policies, optimized the quantitative indicators system for risk appetite, and clarified the risk limit management requirements. The Bank carried out performance evaluation of members of the senior management in charge of risk management of subsidiaries and enhanced the independence of risk management of subsidiaries. The

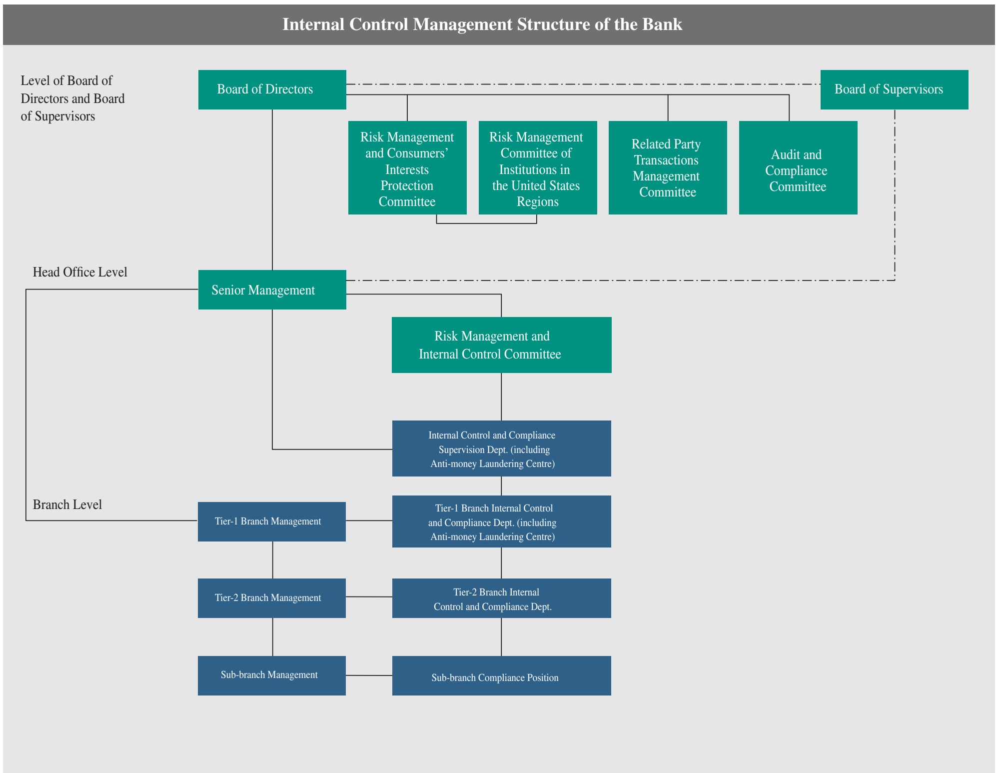
Bank organized the subsidiaries to carry out impact analysis and risk investigation of market fluctuations, and improved risk response ability. The Bank organized affiliates to conduct risk isolation self-assessment to identify and improve weak areas.

Internal Control

The objectives of the Bank's internal control are to reasonably ensure legal and compliant operation and management, make financial reporting and related information truthful and complete, ensure effective risk management and asset security, improve operational efficiency and effectiveness, and facilitate the fulfilment of the Bank's business goals and development strategies.

Pursuant to the *Internal Control Guidelines for Commercial Banks* issued by the CBIRC, the *Basic Rules on Enterprise Internal Control* jointly issued by five ministries including the MOF as well as its supporting guidelines, and other regulatory requirements on internal control. The Board of Directors of the Bank is responsible for establishing a sound internal control, effectively implementing it, evaluating its effectiveness, and disclosing internal control evaluation reports. The Audit and Compliance Committee, the Risk Management and Consumers' Interests Protection Committee, the Risk Management Committee of Institutions in the United States Regions, and the Related Party Transactions Management Committee established under the Board of Directors are responsible for performing the corresponding duties related to internal control management. The senior management is responsible for the daily operation of internal control. The Board of Supervisors supervises the establishment and implementation of internal control by the Board of Directors and the senior management. Under the vertical management, the Bank established the internal Audit Office and regional internal audit offices to perform the responsibilities of audit supervision over internal control and are responsible for and report to the Board of Directors and its Audit and Compliance Committee. There are internal control and compliance supervision departments at the Head Office and all branch levels, which are responsible for organising, promoting and coordinating internal control of the Bank.

Please see below a structure chart showing the Bank's internal control management structure as at 30 June 2022:



In 2021, the Board of Directors, the Board of Supervisors, the senior management and the subordinate professional committees duly performed their duties regarding internal control management and supervision, remained committed to internal control management, and focused on improving the effectiveness of internal control, so as to ensure the legal compliance of the operation. During the first half of 2022, the Bank further optimized the environment of internal control, organized the activity of "Year of Education of Compliance", cultivated the concept of comprehensive compliance, continuously improved the internal control and compliance system and enhanced the compliance operation level in accordance with laws and regulations. The Bank's risk identification and assessment were enhanced. The Bank also persisted in carrying out compliance review and risk assessment for new businesses, new products, new rules and new systems. The Bank evaluated the rules and pushed forward the formulation, revision and abolition of rules. The Bank completed annual general authorization in accordance with the management system of "the five-category classification".

Further, the Bank enhanced the compliance management of overseas institutions and subsidiaries and implemented the new regulations on related party transactions to strengthen the compliance capability of the Group. The management of information communication was strengthened. In addition, the Bank initiated the construction of digital compliance platform, and facilitated the coordination of internal control, compliance, prevention of cases of violations and operational risk management. The Bank fulfilled the responsibility of "Dual Reporting" system to enhance cooperation in management.

Moreover, the Bank strengthened the management of data compliance and the protection of personal information. The Bank's internal supervision and assessment were also improved. The Bank also formulated annual internal control evaluation plan, intensified daily monitoring of anticipated indicators to improve the internal control evaluation system. The Bank organized and carried out supervision and inspection in key areas and targeted ratification on regulatory penalties, strengthened overall management of rectification of problems and facilitated business improvement and enhancement. All in all, the Bank promoted the reform of the accountability system covering all risks and established a precise, robust and effective accountability system.

Anti-money Laundering and Sanctions Risk Management

In the first half of 2022, the Bank earnestly implemented regulatory requirements, gave full play to the role of the anti-money laundering compliance management committee on top-level promotion and strengthened the performance of three lines of defense, to fully promote the construction of anti-money laundering and sanctions risk system of the Bank. The Bank strengthened the overall management of the Group's anti-money laundering, established a regular reporting and communication mechanism covering the Bank's anti-money laundering and sanctions risks. The Bank continued to enhance training for anti-money laundering and sanctions risks, and constantly broadened the transmission channels of knowledge of anti-money laundering.

In addition, the Bank formulated and continuously pushed forward the comprehensive rectification plan for anti-money laundering problems identified in regulatory inspection, audit and compliance test, conducted eight batches of supervision and guidance covering all entities responsible for rectification in a timely manner, and achieved preliminary results in the systemic and fundamental rectification of all kinds of problems. The Bank also orderly promoted the research, development and operation of the intelligent management and control platform for sanctions risks, properly disposed of and defused major foreign-related sanction risk events, and completed the centralization of early warning of sanctions risk for 16 branches by batches, so as to enhance the Head Office's ability to directly manage and control sanctions risks.

Furthermore, the Bank strengthened the governance of customer information, and enhanced the construction of the customer due diligence system and systematic functions. The Bank pushed forward the implementation of new regulations on customer due diligence in an orderly manner, and carried out the upgrade of the relevant systems for tax-related information of financial accounts owned by non-residents. The Bank also carried out comprehensive data governance and strengthened the comprehensiveness and effectiveness of monitoring for anti-money laundering model, so as to reduce the burden on foundation-level branches and improve satisfaction of regulatory authority. The Bank established standards for key data elements of anti-money laundering and continuously monitored and tracked the anti-money laundering data of the Bank.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2022, the persons who had, or were deemed or taken to have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Bank under the provisions of Division 2 and 3 of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "**SFO**") or which were recorded in the Bank's register required to be kept under section 336 of the SFO or who were directly or indirectly interested in 5 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Bank were as follows:

Unit: Share

Name	Capacity	Interests and short positions	Nature	Percentage of issued class shares (%)	Percentage of total issued shares (%)
Huijin	Beneficial owner	140,087,446,351 (A Shares)	Long position	43.88	40.03
	Interest of controlled entity	1,255,434,700 (A Shares)	Long position	0.39	0.36
MOF	Beneficial owner/Nominee(1)	133,312,244,066 (A Shares)(2)	Long position	41.76	38.09
SSF	Beneficial owner	23,520,968,297 (A Shares)	Long position	7.37	6.72
Qatar Investment Authority	Interest of controlled entity	2,448,859,255 (H Shares)(3)	Long position	7.97	0.70
Qatar Holding LLC	Beneficial owner	2,408,696,255 (H Shares)(3)	Long position	7.84	0.69
BlackRock, Inc.	Interest of controlled entity	1,872,249,132 (H Shares)(4)	Long position	6.09	0.53
		10,396,000 (H Shares)	Short position	0.03	0.00
China Taiping Insurance Holdings Company Limited	Interest of controlled entity	1,545,179,000 (H Shares)(5)	Long position	5.03	0.44
China Taiping Insurance Group Ltd.	Interest of controlled entity	1,545,179,000 (H Shares)(5)	Long position	5.03	0.44
Taiping Life Insurance Co., Ltd.	Beneficial owner	1,545,179,000 (H Shares)(5)	Long position	5.03	0.44
Taiping Asset Management Co., Ltd.	Investment manager	1,543,690,000 (H Shares)	Long position	5.02	0.44
	Interest of controlled entity	1,489,000 (H Shares)(6)	Long position	0.00	0.00

Notes:

(1) 9,797,058,826 A Shares are held by the SSF, but the voting rights of these shares were transferred to the MOF according to the share subscription agreement dated 21 April 2010 and the Approval on the Proposed Transfer of State-owned Shares of the Agricultural Bank of China issued by the MOF on 5 May 2010.

(2) According to the register of members of the Bank at 30 June 2022, the MOF held 123,515,185,240 A Shares of the Bank, representing 38.69% of the issued A Shares and 35.29% of the total issued shares of the Bank, respectively.

(3) Qatar Investment Authority is deemed to be interested in 2,448,859,255 H Shares in aggregate, held by Qatar Holding LLC and QSMA1 LLC, both of which are wholly-owned subsidiaries of Qatar Investment Authority.

(4) BlackRock, Inc. is deemed to be interested in 1,872,249,132 H Shares in aggregate, directly or indirectly held by BlackRock Investment Management, LLC and BlackRock Financial Management, Inc., both of which are the wholly-owned subsidiaries of BlackRock, Inc.

(5) China Taiping Insurance Group Ltd. and its non-wholly owned subsidiary, China Taiping Insurance Holdings Company Limited, are deemed to be interested in 1,545,179,000 H Shares directly held by Taiping Life Insurance Co., Ltd., which is the controlled entity of China Taiping Insurance Group Ltd.

(6) Taiping Asset Management Co., Ltd. is deemed to be interested in 1,489,000 H Shares directly held by Taiping Fund Management Co., Ltd., which is the controlled entity of Taiping Asset Management Co., Ltd., and such number of shares represented approximately 0.0048% of the issued class shares.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

The following table sets out certain information relating to the Bank's directors:

Name	Position	Term of appointment
GU Shu	Chairman of the Board and Executive Director	2021.01-2024.01
ZHANG Qingsong.	Vice Chairman of the Board, Executive Director and President	2020.01-2023.01
ZHANG Xuguang	Executive Director and Executive Vice President	2020.10-2023.10
LIN Li.	Executive Director and Executive Vice President	2021.06.15-2024.06.15
LIAO Luming.	Non-executive Director	2017.08-2023.06
LI Wei.	Non-executive Director	2019.05-2022.05
ZHOU Ji	Non-executive Director	2021.03-2024.03
LIU Xiapeng.	Non-executive Director	2022.01-2025.01
XIAO Xiang.	Non-executive Director	2022.01-2025.01
ZHANG Qi.	Non-executive Director	2022.12-2025.12
HUANG Zhenzhong	Independent Non-executive Director	2017.09-2023.06
LEUNG KO May Yee, Margaret	Independent Non-executive Director	2019.07-2022.07
LIU Shouying.	Independent Non-executive Director	2019.07-2022.07
WU Liansheng	Independent Non-executive Director	2021.11-2024.11
WANG Changyun	Independent Non-executive Director	2022.12-2025.12

Executive Directors

Mr. GU Shu holds a Doctor's degree in Economics from Shanghai University of Finance and Economics and is a senior accountant. He has served as an Executive Director of the Bank since January 2021 and the Chairman of the Board of Directors and an Executive Director of the Bank since February 2021. Mr. GU previously served as the deputy general manager of the Accounting and Settlement Department, the deputy general manager of the Planning and Finance Department, the general manager of the Finance and Accounting Department, the board secretary and concurrently general manager of the Corporate Strategy and Investor Relations Department, and president of Shandong Branch of Industrial and Commercial Bank of China. Mr. GU was appointed as the executive vice president and the president of Industrial and Commercial Bank of China in October 2013 and October 2016, respectively. Mr. GU served as the vice chairman of the board, an executive director and the president of Industrial and Commercial Bank of China in December 2016..

Mr. ZHANG Qingsong received a Master's degree in Economics from the Graduate School of the People's Bank of China and is an associate researcher. Mr. ZHANG was appointed as the President of the Bank in November 2019 and has served as the Vice Chairman of the Board of Directors, Executive Director and President since January 2020. Mr. ZHANG successively served in several positions in the Bank of China, including the deputy general manager of the Asset – Liability Management Department, deputy general manager of the Treasury, director of the Global Markets Department, director of the Global Markets Unit, general manager of the Global Markets Unit, general manager of the Hong Kong Trading Center (Hong Kong Branch), general manager of Singapore Branch and general manager of the Clearing Department of the head office. Mr. ZHANG was appointed as the executive vice president of the Bank of China in November 2016, and an executive director as well as the vice president of the Bank of China in August 2018. He was appointed as the vice chairman and president of the Export-Import Bank of China in December 2018. He concurrently serves as the chairman of China Institute of Rural Finance.

Mr. ZHANG Xuguang received a Master's degree in Law from Peking University and a Master's degree in Law from Minnesota State University in the United States, and is a senior economist. He was appointed as an Executive Vice President of the Bank in December 2019 and has served as an Executive Director and an Executive Vice President since October 2020. Mr. ZHANG worked for China National Aero- Technology Import & Export Corporation. In addition, Mr. ZHANG previously served as the executive vice president of Tianjin branch and the deputy general director of the Executive Office, and the president of the Guangxi Zhuang Autonomous Region branch of China Development Bank. Mr. ZHANG also served as the president of China Development Bank Capital Co., Ltd. and the investment director of China Development Bank. In December 2013, he was appointed as an executive vice president of China Development Bank.

Mr. LIN Li holds a Doctor's degree in Economics from Southwestern University of Finance and Economics and is a senior economist. Mr. LIN successively worked in China Raw Materials Investment Corporation and China Development Bank. He previously served as a deputy director and director of general office, a director and secretary to the board of directors of China Everbright Group Corporation (concurrently serving as chief of the Reform and Development Steering Group Office of China Everbright Group Corporation, chief of the Office of Executive Directors of China Everbright Holdings Company Limited (in Hong Kong), a director of Sun Life Everbright Life Insurance Co., Ltd. and chairman of the board of supervisors of China Everbright Investment Management Co., Ltd.), and the executive vice president and senior executive vice president of China Everbright Bank (concurrently serving as a director of China UnionPay). Mr. LIN was appointed as the vice president of Agricultural Development Bank of China in January 2014, and served as an executive director and the vice president of Agricultural Development Bank of China in February 2018.

Non-executive Directors

Mr. LIAO Luming holds a Doctor's degree in Public Finance from the Public Finance Science Institute of the Ministry of Finance (the "**MOF**"). He currently works with Central Huijin Investment Ltd. Mr. LIAO has served as a Non-executive Director of the Bank since August 2017. He started working at the MOF in August 1985, and served successively as the principal staff of the Research Division, the deputy director and director of the Information Division, and director of the News Division at the General Office of MOF. He was appointed as deputy director of the General Office of MOF in January 2003, bureau level cadre of the Party Committee of MOF in January 2012 and executive vice secretary (bureau level) of the party committee of MOF in February 2012.

Mr. LI Wei graduated from Zhejiang University of Finance and Economics with a Bachelor's degree in Finance and is a senior accountant. He currently works with Central Huijin Investment Ltd., and has served as a Non-executive Director of the Bank since May 2019. He previously served as a deputy director clerk, a director clerk and a deputy director of the Budget Office of Ningbo Finance and Taxation Bureau, as well as a deputy director, a director, an assistant commissioner and a deputy supervisor of the First Division of the Office of the Ministry of Finance in Ningbo.

Ms. ZHOU Ji received a Master's degree in National Economic Planning and Management from Department of National Economic Management of Renmin University of China, and is an economist. Ms. ZHOU currently works with Central Huijin Investment Ltd. Ms. ZHOU has served as a Non-executive Director of the Bank since March 2021. She previously worked as a deputy director of Balance of Payments Division and a deputy director of Analysis and Forecast Division of Balance of Payments Department of the SAFE; a director of Balance of Payments Statistics Division of Balance of Payments Department of the SAFE; a deputy director of Balance of Payments Department and a deputy director of Capital Account Management Department of the SAFE.

Independent Non-executive Directors

Mr. LIU Xiaopeng holds a doctor's degree in world economics from Nankai University, and is a senior economist. He currently works with Central Huijin Investment Ltd., and has served as a Non-executive Director of the Bank since January 2022. He previously worked as a deputy director of Financial Asset

Management Department of State Grid Corporation of China, the general manager of Investment Management Department, and concurrently served as an assistant to the general manager of the company and the general manager of Development Planning Department of State Grid Yingda International Holdings Co., Ltd., a vice general manager and the secretary to the board of directors of China Power Finance Co., Ltd., a deputy director-general of the Global Energy Interconnection Office of State Grid Corporation of China and the Global Energy Interconnection Development and Cooperation Organisation, an executive director and the chief executive officer of Gome Finance Technology Co., Ltd., and the chief strategic operating officer of Gome Holding Group Co., Ltd.. He concurrently serves as a non-executive director of China Reinsurance (Group) Corporation and a visiting professor of Nankai University.

Mr. XIAO Xiang is a postgraduate from Sichuan Institute of Business Administration specialising in business administration. He currently works with Central Huijin Investment Ltd., and has served as a Non-executive Director of the Bank since January 2022. He previously served as a deputy director of the Office, a deputy director of the Business Division I (person-in-charge) and an assistant commissioner of the Office of the Finance Discipline Inspection Commissioners of the Ministry of Finance in Sichuan. He served as a deputy inspection commissioner of the Office of the Ministry of Finance in Fujian, an inspection commissioner of the Office of the Finance Discipline Inspection Commissioners of the Ministry of Finance in Hunan and a director general of Hunan Regulatory Bureau of the Ministry of Finance.

Mr. ZHANG Qi holds a doctor's degree in economics from Dongbei University of Finance & Economics. He is currently working at Huijin. He serves as a non-executive director of China Construction Bank Corporation since July 2017, and served as a non-executive director of Bank of China Limited from July 2011 to June 2017. He was the deputy director and director of the Minister's Office under the General Office of Ministry of Finance, the senior manager of the Office of China Investment Corporation, and the managing director of Equity Management Department I of Huijin.

Mr. HUANG Zhenzhong holds a Doctor's degree in Law. He is currently a professor and a supervisor for Ph.D. candidates of the School of Law in Beijing Normal University, and a deputy director of Chinese Entrepreneurs Crime Prevention Research Center. He has served as an Independent Non-executive Director of the Bank since September 2017. He previously served as a vice director and a senior economist of the Enterprise Reform Division at the Asset Management Department of Sinopec Group, a deputy head of School of Law and a director of the Legal Counsel Office in School of Law of Beijing Normal University, and a deputy chief prosecutor, a member of the Committee of Inspection of the Procuratorate of Tibet Autonomous Region and an independent director of Ciwen Media Co., Ltd. He is currently the vice chairman of China – ASEAN Legal Cooperation Center, an executive director of the Energy Law Research Committee of China Law Society, an arbitrator of China International Economic and Trade Arbitration Commission, a panel mediator with the Mediation Center of China Chamber of International Commerce, an arbitrator of Tianjin Arbitration Commission, an arbitrator of Hainan Arbitration Commission, a lifetime honorary director of Beijing Jingshi Law Firm, a member of the Chartered Institute of Arbitrators, and an independent director of Sinopec Oilfield Equipment Corporation, CECEP Solar Energy Technology Co., Ltd. and Yunnan Jinggu Forestry Co., Ltd.

Ms. LEUNG KO May Yee, Margaret, holds a Bachelor's degree in Economics, Accounting and Business Administration from the University of Hong Kong. Ms. Leung was awarded Silver Bauhinia Star and Justice of the Peace by the HKSAR. She has served as an Independent Non-executive Director of the Bank since July 2019. She previously served as a vice chairman and the chief executive of Chong Hing Bank Limited, a vice chairman and the chief executive of Hang Seng Bank Limited, the general manager and global cohead of Industrial and Commercial Business of HSBC Group, a director of HSBC, and a director of Wells Fargo HSBC Trade Bank; she was an independent non-executive director of China Construction Bank, Hong Kong Exchanges and Clearing Limited, QBE Insurance Group Limited (listed on the Australian Securities Exchange), etc. She currently serves as an independent non-executive director of First Pacific Company Limited, Li & Fung Limited and Sun Hung Kai Properties Limited., and a member of the National Committee of the Chinese People's Political Consultative Conference.

Mr. LIU Shouying serves as a second-level professor and supervisor for Ph.D. candidates in School of Economics, Renmin University of China, the director of All China Federation of Supply and Marketing Cooperatives, vice president of the Chinese Association of Agro-Technical Economics, executive director of the China Land Science Society, and vice president of China International Association for Urban and Rural Development. He has served as an Independent Non-executive Director of the Bank since July 2019. He previously served as a deputy secretary-general of the Academic Committee of the Development Research Center of the State Council, a deputy minister of the Rural Economic Research Department, a director of the Urban and Rural Coordination Fundamental Area of the Development Research Center of the State Council, and the president and chief editor of China Economic Times.

Mr. WU Liansheng holds a doctor's degree in management and currently serves as chair professor of Southern University of Science and Technology. He served as a distinguished professor of the Chang Jiang Scholars Programme of the Ministry of Education, and awarded as the winner of the National Outstanding Young Scholars. He was elected into the "Programme for New Century Excellent Talents in University" of the Ministry of Education and the "Accountant Specialist Training Project" of the Ministry of Finance. He has served as an independent non-executive director of the Bank since November 2021. He previously served as the associate dean and professor for the Guanghua School of Management of Peking University. He previously served as an independent director of Huaneng Power International, Inc., RiseSun Real Estate Development Co., Ltd., Western Mining Co., Ltd., Wanda Cinema Line Co., Ltd., China National Building Material Company Limited, Xinhuanet Co., Ltd. and BOC International (China) Co., Ltd. Mr. WU currently serves as an independent director of Rightway Holdings Co., Ltd. and Pop Mart International Group Limited.

Mr. WANG Changyun holds a master's degree in economics from Renmin University of China and a doctor's degree in financial economics from University of London. He currently serves as a professor in finance at the School of Finance, a supervisor for Ph.D. candidates, the director of the Institute of International M&A and Investment and a deputy director of ESG Research Center of Renmin University of China. He is a distinguished professor of the Chang Jiang Scholars Programme and entitled to Government Allowance granted by the State Council. He concurrently serves as an independent non-executive director of China Cinda Asset Management Co., Ltd., Sunway Co., Ltd., Beijing Haohua Energy Resource Co., Ltd., and Hexie Health Insurance Co., Ltd., a vice president of China Investment Specialty Construction Association, an executive director of China Investment Association, a director of China Finance Association and special auditor of National Audit Office. He previously served as the dean of Hanqing Advanced Institute of Economics and Finance in Renmin University of China and an independent non-executive director of Bank of China Limited.

Supervisors

The following table sets out certain information relating to the Bank's supervisors.

Name	Position
WANG Jingdong	Chairman of the Board of Supervisors and Supervisor Representing Shareholders
DENG Lijuan	Supervisor Representing Shareholders
WU Gang	Supervisor Representing Employees
HUANG Tao	Supervisor Representing Employees
LIU Hongxia	External Supervisor
XU Xianglin	External Supervisor
WANG Xixin	External Supervisor

Mr. WANG Jingdong holds a Bachelor's degree in Agronomy from Huazhong Agricultural College and is a senior engineer. Mr. WANG has served as the Chairman of the Board of Supervisors and a Supervisor representing Shareholders of the Bank since November 2018. Mr. WANG successively worked in the Ministry of Agriculture, Animal Husbandry and Fisheries, the State Economic Commission and State Agriculture Investment Corporation. He successively served in several positions in China Development Bank, including an executive vice president of the Heilongjiang branch, a vice general manager of the human resources department of the head office, the general manager of the project appraisal department III of the head office, the president of Beijing branch and the general manager of human resources department of the head office. Mr. WANG has served as an executive vice president of Industrial and Commercial Bank of China since December 2013 and an executive director and executive vice president of Industrial and Commercial Bank of China since December 2016.

Ms. DENG Lijuan holds a master's degree in economics from Jilin University and is a senior economist. She previously served in several positions in the Human Resources Department of the Bank, including the deputy director of the Headquarter Staff Management Division, the deputy director and director of the Senior Management Training Division and the director of the Affiliated Institutions Staff Management Division. She was appointed as the vice general manager of the Human Resources Department of the Bank in August 2016 and the person-in-charge of the Office of the Board of Supervisors of the Bank in January 2022. She has served as the director of the Office of the Board of Supervisors of the Bank since March 2022.

Mr. WU Gang holds a Master's degree from Tianjin University specialising in Management Engineering and is a senior economist. He has been serving as a Supervisor Representing Employees of the Bank since October 2019. He previously served as the assistant to the general manager and the deputy general manager of the corporate banking department of the Bank, the general manager of the Big Client Department/Business Department and concurrently the member of party committee and vice president of the Beijing Branch. He served as the secretary of party committee and president of the Henan Branch in June 2014. He has been the general manager of Audit Office of the Head Office since May 2018.

Mr. HUANG Tao holds a Master's degree in Arts from Huazhong University of Science and Technology and is a senior economist. He has served as a Supervisor Representing Employees of the Bank since July 2021. He previously served as the deputy director of the Editorial Division III of the Air Force Newspaper Office (regiment commander level), the first secretary (director level), the consultant, concurrently the consultant and the deputy director of the General Office of the Secretary Bureau I of General Office of the State Council, the director of Division III and the deputy inspector and concurrently the director of Division III of the Supervision Office of General Office of the State Council, a member of the Municipal Standing Committee and the deputy mayor (temporary) of Guilin, the Guangxi Zhuang Autonomous Region, the deputy inspector and the inspector of the Supervision Office of the General Office of the State Council. He served as the general manager of the Office/Complaint Office of the Bank in November 2015 and served as the general manager of the Office of the Bank since June 2021.

Ms. LIU Hongxia holds a Doctor's degree in Management. She has served as an External Supervisor of the Bank since November 2018. From 1999 until now, Ms. LIU has been working as a professor, a supervisor for Ph.D. candidates, and a co-advisor for postdoctoral at the School of Accounting of Central University of Finance and Economics. Ms. LIU previously worked as a teaching assistant at Beijing Institute of Finance and Trade, a lecturer of Shandong University of Finance, an auditor of Zhongzhou Certified Public Accountants in Beijing, and a deputy professor of Central Financial Management Cadre College. She previously served as independent director for China Merchants Bank, Fangda Special Steel Technology Co., Ltd., Beijing AriTime Intelligent Control Co., Ltd., Shanghai New Huang Pu Real Estate Co., Ltd., Langold Real Estate Co., Ltd., Shandong Humon Smelting Co., Ltd., Hebei Xingtai Rural Commercial Bank Company Limited, etc. She currently serves as an independent director of Cinda Real Estate Co., Ltd., Nanjing Tanker Corporation of China Changjiang National Shipping Group Co. Ltd., Joyoung Co., Ltd., Dalian Zeus Entertainment Co., Ltd., etc.

Mr. XU Xianglin holds a master's degree in economics from Renmin University of China, and has served as an External Supervisor of the Bank since November 2021. He is a professor and a supervisor for Ph.D. candidates in Economics of the Party School of the CPC Central Committee National School of Administration. He previously served as a teacher in the Department of Agricultural Economic Management of Renmin University of China, a teacher of the Economics Teaching and Research Office of Party School of the CPC Central Committee, and lectured the agricultural and rural economic development course at classes for cadre of the Party School of the CPC Central Committee for a long time prior to his retirement. He is currently involved in guiding the development of a "three-in-one" integrated farmers' cooperative system in Jingpeng town, Keshiketeng Banner, Inner Mongolia Autonomous Region. He is concurrently serving as the chairman of the board of supervisors of Beijing Jingxi Lilinhui Agricultural and By-products Planting Professional Cooperative.

Mr. WANG Xixin holds a doctor's degree in law from Peking University and has served as an External Supervisor of the Bank since November 2021. He is currently a professor and a supervisor for Ph.D. candidates of Peking University Law School; the director of PKU-Yale Joint Centre for Law and Policy Reform Studies (China) and the Peking University Centre for Public Participation Studies and Supports, the executive dean of Peking University Law & Development Academy, the chief editor of Peking University Law Journal, the director of Peking University Centre for Studies of Constitutional and Administrative Law, being the Key Research Base of Humanities and Social Sciences of Ministry of Education. He previously worked at the Legal Affairs Office of Wuhan Municipal People's Government of Hubei Province; served as a vice dean of Peking University Law School and a deputy chief judge of the Administrative Trial Division of the Supreme People's Court (temporary). He is concurrently serving as a legal advisor of ministries and commissions under the State Council including Ministry of Education and State Administration for Market Regulation, a member of expert consultant committee for local governments including Beijing and Shanghai, and an independent director of Capital Securities Co., Ltd.

Senior management

The following table sets out certain information relating to the Bank's senior management.

Name	Position
ZHANG Qingsong	Vice Chairman of the Board of Directors, Executive Director and President
ZHANG Xuguang	Executive Director and Executive Vice President
LIN Li	Executive Director and Executive Vice President
XU Han	Executive Vice President
ZHANG Yi	Executive Vice President
LI Zhicheng	Chief Risk Officer
HAN Guoqiang	Secretary to the Board of Directors

For the detailed biographies of Mr. ZHANG Qingsong, Mr. ZHANG Xuguang and Mr. LIN Li, see "Directors" above. The biographies of other senior management personnel are as follows:

Mr. ZHANG Yi holds a master's degree in business administration from Renmin University of China and is a senior accountant. He has served as an Executive Vice President of the Bank from November 2021. Mr. ZHANG previously served in several positions in China Construction Bank Corporation, including the deputy general manager of the asset and liability management department of the head office, the vice president and president of Jiangsu branch, and the general manager of the finance and accounting department of the head office. He concurrently served as the chief financial officer and the general manager of the finance and accounting department of China Construction Bank Corporation.

Mr. XU Han received a Master's degree in Engineering from Shanghai University of Technology, is a senior engineer and an expert entitled to Government Special Allowance granted by the State Council allowances of the State Council. Since October 2020, Mr. XU has served as an Executive Vice President of the Bank. Mr. XU previously served in various positions in Bank of Communications, including the deputy general manager of IT Department of Hong Kong Branch, deputy general manager of Computer Department, vice CEO (CEO for Domestic Business) and CEO of Pacific Credit Card Centre, general manager of Personal Finance Department (Consumer Rights Protection Department), general manager of Personal Finance Department (Consumer Rights Protection Department) and general manager of Network Channel Department, general manager of Personal Finance Department (Consumer Rights Protection Department) and chief executive officer of Internet Centre (Online Centre), and chief business officer (Retail and Private Business Sector) and general manager of Personal Finance Department (Consumer Rights Protection Department).

Mr. LI Zhicheng received a Master's degree in Economics from Shaanxi College of Finance and Economics. Mr. LI has served as the Chief Risk Officer of the Bank since February 2017. Mr. LI previously served in several positions in the Bank, including an assistant president of Wuhan Cadre Management College of the Bank, a deputy director of Research Office of the Head Office and a vice president of Hebei Branch. From June 2005, Mr. LI successively served as the director of Research Office of the Bank, the president of Jilin Branch and the president of Jiangsu Branch. From July 2014, Mr. LI served as Chief Investment Officer of the Bank and concurrently held the position of general manager of Hong Kong Branch.

Mr. HAN Guoqiang received a Master's degree in Business Administration from Lanzhou University, and is a senior economist. He has served as the Secretary to the Board of Directors of the Bank since November 2020. Mr. HAN previously served as a vice principal and the principal of the training institute of the Gansu Branch of the Bank, the assistant president and vice president of Gansu Branch of the Bank. From May 2014, Mr. HAN served as the president of Gansu Branch of the Bank. Mr. HAN served as the president of Chongqing Branch of the Bank from August 2016.

COMPANY SECRETARY

For the detailed biograghy of Mr. HAN Guoqiang, see "Senior Management"above.

SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors established the Strategic Planning and Sustainable Development Committee, the County Area Banking Business and Inclusive Finance Development Committee, the Nomination and the Remuneration Committee, the Audit and Compliance Committee and the Risk Management and Consumers' Interests Protection Committee, the Related Party Transactions Management Committee and the Risk Management Committee of Institutions in the United States Regions (responsibilities of which are concurrently assumed by the Risk Management and Consumers' Interests Protection Committee).

Strategic Planning and Sustainable Development Committee

The Strategic Planning and Sustainable Development Committee of the Board of Directors currently comprises eight directors, including Mr. GU Shu, Mr. ZHANG Qingsong, Mr. ZHANG Xuguang and Mr. LIN Li (all are Executive Directors), Mr. LIAO Luming, Mr. LI Wei and Ms. ZHOU Ji (all are Non-executive Directors) and Ms. WANG XinXin (Independent Nonexecutive Director). Mr. GU Shu is the chairman of the Strategic Planning and Sustainable Development Committee. The primary duties of the Strategic Planning and Sustainable Development Committee are to review the overall strategic development plan and specific strategic development plans, major investment and financing plans, establishment of legal entities and other material matters critical to the Bank's development, to formulate the sustainable development strategies and goals of the Bank and regularly assess the risks associated with sustainable development and the implementation of the sustainable development strategies and to make suggestions to the Board of Directors.

County Area Banking Business and Inclusive Finance Development Committee

The County Area Banking Business and Inclusive Finance Development Committee of the Board of Directors currently comprises six Directors, including Mr. ZHANG Qingsong (Executive Director), Mr. LIAO Luming, Mr. LI Wei and Ms. ZHOU Ji (all are Non-executive Directors), as well as Mr. WU Liansheng and Mr. LIU Shouying (both are Independent Non-executive Directors). Mr. Zhang Qingsong is the chairman of the County Area Banking Business and Inclusive Finance Development Committee. The primary duties of the County Area Banking Business and Inclusive Finance Development Committee are to review the strategic development plan, policies and basic management rules, risk management strategic plan and other major matters in relation to the development of the County Area Banking Business and Inclusive Finance, as well as supervise the implementation of the strategic development plan, policies and basic management rules of the County Area Banking Business and Inclusive Finance, and to provide suggestions to the Board of Directors.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Board of Directors currently comprises eight directors, including Mr. ZHANG Qingsong (Executive Director), Mr. LIAO Luming, Mr. LI Wei and Ms. ZHOU Ji (both are Non-executive Directors), Mr. WANG Xinxin, Mr. HUANG Zhenzhong, Mr. WU Liansheng and Mr. LIU Shouying (all are Independent Nonexecutive Directors). Mr. WANG Xinxin is the chairman of the Nomination and Remuneration Committee. The primary duties of the Nomination and Remuneration Committee are to formulate standards and procedures for election of directors, chairman and members of special committees and senior management members, and to make recommendations regarding the proposed candidates for directors and senior management members and their qualifications to the Board of Directors, as well as to formulate the remuneration policies for directors and senior management members, and to submit the remuneration packages to the Board of Directors for consideration.

Audit and Compliance Committee

The Audit and Compliance Committee of the Board of Directors currently comprises four directors, including Mr. LI Wei (Non-executive Director), Mr. WU Liansheng, Ms. LEUNG KO May Yee, Margaret and Mr. LIU Shouying (all are Independent Non-executive Director). Ms. XIAO Xing is the chairwoman of the Audit and Compliance Committee. The primary duties of the Audit and Compliance Committee are to review the Bank's internal control and management policy, material financial and accounting policies, audit general managements systems and regulations, medium and long-term audit plan and annual work plan, and to make suggestions to the Board of Directors; as well as to review and approve the Bank's general policy on prevention and control of cases of violation, and to effectively scrutinize and oversee the Bank's prevention and control of cases of violation.

Related Party Transactions Management Committee

The Related Party Transactions Management Committee of the Board of Directors currently comprises three directors, including Mr. Wang Xinxin, Mr. HUANG Zhenzhong and Ms. LEUNG KO May Yee, Margaret (all are Independent Nonexecutive Directors). Ms. LEUNG KO May Yee, Margaret is the chairman of the Related Party Transactions Management Committee. The primary duties of the Related Party Transactions Management Committee are to identify related parties of the Bank, review the Bank's general management system for related party transactions, review and record the related party transactions, and make suggestions to the Board of Directors.

Risk Management and Consumers' Interests Protection Committee

The Risk Management and Consumers' Interests Protection Committee of the Board of Directors currently comprises six directors, including Mr. ZHANG Xuguang and Mr. LIN Li (both are Executive Directors), Mr. LIAO Luming (Non-executive Director), Mr. WANG Xinxin, Mr. HUANG Zhenzhong and Ms. LEUNG KO May Yee, Margaret (all are Independent Non-executive Directors). Mr. HUANG Zhenzhong is the chairman of the Risk Management and Consumers' Interests Protection Committee.

The primary duties of the Risk Management and Consumers' Interests Protection Committee are to review the Bank's strategic plan of risk management, risk appetite, material risk management policies, risk management report and allocation plan of risk-weighted capital, to review the Bank's strategies, policies and objectives of consumer protection, to continuously oversee the risk management system, to supervise and evaluate the Bank's work in risk management and consumers' interest protection, and to provide suggestions to the Board of Directors.

Risk Management Committee of Institutions in the United States Regions

The Risk Management Committee of Institutions in the United States Regions of the Board of Directors currently comprises six directors, including Mr. ZHANG Xuguang and Mr. LIN Li (both are Executive Directors), Mr. LIAO Luming (Non-executive Directors), Mr. WANG Xinxin, Mr. HUANG Zhenzhong and Ms. LEUNG KO May Yee, Margaret (all are Independent Non-executive Directors). Mr. HUANG Zhenzhong is the chairman of the Risk Management Committee of Institutions in the United States Regions. The primary duties of the Risk Management Committee of Institutions in the United States Regions are to review and approve the risk management policies in relation to businesses in the United States regions and supervise its implementation, as well as to review issues identified in the internal and external inspection of institution in the United States regions and the report on relevant rectification, and other matters authorized by the Board of Directors. Responsibilities of the Risk Management Committee of Institutions in the United States Regions are concurrently assumed by the Risk Management and Consumers' Interests Protection Committee.

CONFLICTS OF INTEREST

As far as is known to the Bank, no potential conflicts of interest exist between any duties to the Bank of any directors or senior management and their private or other duties.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposal of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

PRC Taxation

Enterprise Income Tax

Pursuant to the Enterprise Income Tax Law of the PRC and its implementation regulations, enterprises that are established under laws of foreign countries and regions whose "de facto management bodies" are within the territory of the PRC are deemed as PRC tax resident enterprises for the purpose of the Enterprise Income Tax Law. Unless otherwise tax reduction or exemption is available to the enterprise, a resident enterprise shall pay enterprise income tax at the rate of 25 per cent. in respect of its income sourced from both within and outside PRC. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer or the enterprise holder of the Notes is within the territory of the PRC, the Issuer or the enterprise holder of the Notes will be deemed as a PRC tax resident enterprise for the purpose of the Enterprise Income Tax Law and be subject to enterprise income tax at the rate of 25 per cent. on its income from sources both within and outside PRC, unless tax reduction or exemption is available to the Issuer or the enterprise holder of the Notes.

Withholding Tax

The Enterprise Income Tax Law and its implementation regulations impose a withholding tax at the rate of 10 per cent. on PRC-source income paid to a "nonresident enterprise" that does not have an establishment or place of business or production in PRC or that has an establishment or place of business or production in PRC but the relevant income is not effectively connected therewith. Pursuant to these provisions of the Enterprise Income Tax Law and its implementation regulations, in the event the Issuer is considered a PRC resident enterprise by the PRC tax authorities in the future, interest payable to or capital gain realized by nonresident enterprise holders of the Notes may be treated as income derived from sources within PRC and subject to such PRC withholding tax.

Further, the Individual Income Tax Law of the PRC and its implementation regulations impose a withholding tax on any income from sources both within and outside the PRC paid to any individual who has a domicile within the PRC or has no domicile but has stayed in the PRC for 183 days or more cumulatively within a tax year and on any income from sources within PRC paid to any individual who has no domicile in the PRC and has not stayed in the PRC for fewer than 183 days cumulatively within a tax year. If the individual holder of the Notes has a domicile within the PRC or has no domicile but has stayed in the PRC for 183 days or more cumulatively within a tax year, any interest payable to or any capital gain realized by such individual holder of the Notes will be subject to a 20 per cent. individual income tax. If the Issuer is considered a PRC tax resident enterprise, any interest payable to or any capital gain realized by individual holders of the Notes who have no domicile within the PRC and has not stayed in the PRC for fewer than 183 days cumulatively within a tax year may be treated as income derived from sources within PRC and subject to a 20 per cent. individual income tax.

To the extent that PRC has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified holders of the Notes.

Stamp Duty

No PRC stamp tax will be chargeable upon the issue or transfer of a Note to the extent that the register of holders of the Notes is maintained outside PRC.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes, provided that either:

(i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the "**SDO**")).

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(i) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Registered Notes constitute loan capital (as defined in the SDO).

With effect from 1 August 2021, if stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.26 per cent. (of which 0.13 per cent. is payable by the seller and 0.13 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transactions tax in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**Participating Member States**"). However, Estonia has since stated that it will not participate in the proposal.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Securities (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in the Securities where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

The FTT proposal remains subject to negotiation between the Participating Member States and it may be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Securities are advised to seek their own professional advice in relation to the FTT.

United States FATCA Tax Provisions

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a foreign financial institution may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register, and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional Notes (as described under "*Terms and Conditions of the Notes – Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Noteholders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

Singapore

*The statements below are general in nature and are based on certain aspects of current tax laws in Singapore and administrative guidelines and circulars issued by the Inland Revenue Authority of Singapore ("**IRAS**") and the Monetary Authority of Singapore (the "**MAS**") in force as at the date of this Offering Circular and are subject to any changes in such laws, administrative guidelines or circulars, or the interpretation of those laws, guidelines or circulars, occurring after such date, which could be made on a retroactive basis. These laws, guidelines and circulars are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below. Neither these statements nor any other statements in this Offering Circular are intended or are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. The statements made herein do not* *purport to be a comprehensive or exhaustive description of all the tax considerations that may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or financial institutions in Singapore which have been granted the relevant Financial Sector Incentive(s)) may be subject to special rules or tax rates. Holders and prospective holders of the Notes are advised to consult their own professional tax advisors as to the Singapore or other tax consequences of the acquisition, ownership of or disposal of the Notes, including, in particular, the effect of any foreign, state or local tax laws to which they are subject. It is emphasised that none of the Issuer, the Arrangers, Dealers or and any other persons involved in the Programme or the issue of the Notes accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Notes.*

*In addition, if Notes are issued as perpetual securities, the disclosure below is on the assumption that the Inland Revenue Authority of Singapore regards such tranche of perpetual Notes as "debt securities" for the purposes of the Income Tax Act, Chapter 134 of Singapore (the "**ITA**") and that interest payments made under each tranche of such perpetual Notes will be regarded as interest payable on indebtedness and holders thereof may therefore enjoy the tax concessions and exemptions available to qualifying debt securities, provided that the other conditions for the Qualifying Debt Securities scheme are satisfied. If any tranche of such perpetual Notes is not regarded as "debt securities" for the purposes of the ITA and holders thereof are not eligible for the tax concessions under the Qualifying Debt Securities scheme, the tax treatment to holders may differ. Investors and holders of any tranche of such perpetual Notes should consult their own professional accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding and disposal of any tranche of perpetual Notes.*

The disclosure in paragraphs 1 to 3 and 5 to 7 below summarises the income tax treatment currently applicable where the Issuer is Agricultural Bank of China Limited Singapore Branch or any other entity which is resident in Singapore for the purposes of the ITA.

1 Interest and Other Payments

Subject to the following paragraphs, under Section 12(6) of the ITA, the following payments are deemed to be derived from Singapore:

(a) any interest, commission, fee or any other payment in connection with any loan or indebtedness or with any arrangement, management, guarantee, or service relating to any loan or indebtedness which is (i) borne, directly or indirectly, by a person resident in Singapore or a permanent establishment in Singapore (except in respect of any business carried on outside Singapore through a permanent establishment outside Singapore or any immovable property situated outside Singapore) or (ii) deductible against any income accruing in or derived from Singapore; or

(b) any income derived from loans where the funds provided by such loans are brought into or used in Singapore.

Such payments, where made to a person not known to the paying party to be a resident in Singapore for tax purposes, are generally subject to withholding tax in Singapore. The rate at which tax is to be withheld for such payments (other than those subject to the 15 per cent. final withholding tax described below) to non-resident persons (other than non-resident individuals) is currently 17 per cent. The applicable rate for non-resident individuals is currently 22 per cent. and is proposed to be increased to 24 per cent. from the year of assessment 2024 pursuant to the Singapore Budget Statement 2022. However, if the payment is derived by a person not resident in Singapore from sources other than from its trade, business, profession or vocation carried on or exercised by such person in Singapore and is not effectively connected with any permanent establishment in Singapore of that person, the payment is subject to a final withholding tax of 15 per cent. The rate of 15 per cent. may be reduced by applicable tax treaties.

However, certain Singapore-sourced investment income derived by individuals from financial instruments is exempt from tax, including:

(a) interest from debt securities derived on or after 1 January 2004;

(b) discount income (not including discount income arising from secondary trading) from debt securities derived on or after 17 February 2006; and

(c) prepayment fee, redemption premium and break cost from debt securities derived on or after 15 February 2007,

except where such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession in Singapore.

2 Withholding Tax Exemption on Payments by (amongst others) Licensed Banks

Payments falling within Section 12(6) of the ITA and made by (amongst certain other persons) licensed banks in Singapore to persons who are non-Singapore tax-residents (other than permanent establishments in Singapore):

(a) between 1 April 2011 and 31 March 2021; or

(b) on a contract which takes effect between 1 April 2011 and 31 March 2021,

will be exempt from tax, provided the payments are made for the purposes of the licensed bank's business in Singapore and the payments do not arise from a transaction to which the general anti-avoidance provisions in Section 33 of the ITA applies.

With effect from 17 February 2012, (amongst certain other persons) licensed banks are no longer required to withhold tax on payments falling within Section 12(6) of the ITA which they are liable to make to permanent establishments in Singapore of a non-resident person:

(a) between 17 February 2012 and 31 March 2021 on contracts that take effect before 17 February 2012; and

(b) on or after 17 February 2012 on contracts that take effect between 17 February 2012 to 31 March 2021.

With effect from 21 February 2014, the expiry date of 31 March 2021 referred to in the immediately preceding paragraph does not apply to payments to Singapore branches of non-resident persons as the requirement to withhold tax from payments to Singapore branches has been lifted.

Notwithstanding the immediate preceding paragraph, permanent establishments in Singapore of a non-resident person are required to declare such payments in their annual income tax returns and will be assessed to tax on such payments (unless specifically exempt from tax).

3 Qualifying Debt Securities Scheme

If a Tranche of Notes is issued under the Programme (the "**Relevant Notes**") during the period from the date of this Offering Circular to (and including) 31 December 2023 and if more than half of the Relevant Notes are distributed by a Financial Sector Incentive (Capital Market) Company, a

Financial Sector Incentive (Standard Tier) Company or a Financial Sector Incentive (Bond Market) Company (each as defined in the ITA), the Relevant Notes would be "**qualifying debt securities**" pursuant to the ITA and the MAS Circular FDD Cir 11/2018 entitled "Extension of Tax Concessions for Promoting the Debt Market" issued by the MAS on 31 May 2018 (the "**MAS Circular**"), to which the following treatments shall apply:

(i) subject to certain prescribed conditions having been fulfilled (including the submission to the MAS of a return on debt securities in respect of the Relevant Notes in the prescribed format within such period as the MAS may specify and such other particulars in connection with the Relevant Notes as the MAS may require, and the inclusion by the Issuer in all offering documents relating to the Relevant Notes of a statement to the effect that where interest, discount income, prepayment fee, redemption premium or break cost from the Relevant Notes is derived by a person who is not resident in Singapore and who carries on any operation in Singapore through a permanent establishment in Singapore, the tax exemption for qualifying debt securities shall not apply if the non-resident person acquires the Relevant Notes using funds from that person's operations through the Singapore permanent establishment), interest, discount income (not including discount income arising from secondary trading), prepayment fee, redemption premium and break cost (collectively, the "**Qualifying Income**") from the Relevant Notes derived by a holder who is not resident in Singapore and who (aa) does not have any permanent establishment in Singapore or (bb) carries on any operation in Singapore through a permanent establishment in Singapore but the funds used by that person to acquire the Relevant Notes are not obtained from such person's operation through a permanent establishment in Singapore, are exempt from Singapore tax;

(ii) subject to certain conditions having been fulfilled (including the submission to the MAS of a return on debt securities in respect of the Relevant Notes in the prescribed format within such period as the MAS may specify and such other particulars in connection with the Relevant Notes as the MAS may require), Qualifying Income from the Relevant Notes derived by any company or body of persons (as defined in the ITA) in Singapore is subject to income tax at a concessionary rate of 10 per cent. (except for holders of the relevant Financial Sector Incentive(s) who may be taxed at different rates); and

(iii) subject to:

(aa) the Issuer including in all offering documents relating to the Relevant Notes a statement to the effect that any person whose interest, discount income, prepayment fee, redemption premium or break cost derived from the Relevant Notes is not exempt from tax shall include such income in a return of income made under the ITA; and

(bb) the submission to the MAS of a return on debt securities in respect of the Relevant Notes in the prescribed format within such period as the MAS may specify and such other particulars in connection with the Relevant Notes as the MAS may require,

payments of Qualifying Income derived from the Relevant Notes are not subject to withholding of tax by the Issuer.

However, notwithstanding the foregoing:

A. if during the primary launch of any tranche of the Relevant Notes, the Relevant Notes of such tranche are issued to less than four persons and 50 per cent. or more of the issue of such Relevant Notes is beneficially held or funded, directly or indirectly, by related parties of the Issuer, such Relevant Notes would not qualify as "qualifying debt securities"; and

B. even though a particular tranche of Relevant Notes are "qualifying debt securities", if at any time during the tenure of such tranche of Relevant Notes, 50 per cent. or more of the issue of such Relevant Notes is beneficially held or funded, directly or indirectly, by any related party(ies) of the Issuer, Qualifying Income derived from such Relevant Notes held by:

(i) any related party of the Issuer; or

(ii) any other person where the funds used by such person to acquire such Relevant Notes are obtained, directly or indirectly, from any related party of the Issuer,

shall not be eligible for the tax exemption or concessionary rate of tax as described above.

The term "**related party**", in relation to a person, means any other person who, directly or indirectly, controls that person, or is controlled, directly or indirectly, by that person, or where he and that other person, directly or indirectly, are under the control of a common person.

The terms "**break cost**", "**prepayment fee**" and "**redemption premium**" are defined in the Income Tax Act as follows:

(a) "**break cost**", in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by any loss or liability incurred by the holder of the securities in connection with such redemption;

(b) "**prepayment fee**", in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by the terms of the issuance of the securities; and

(c) "**redemption premium**", in relation to debt securities and qualifying debt securities, means any premium payable by the issuer of the securities on the redemption of the securities upon their maturity.

References to "break cost", "prepayment fee" and "redemption premium" in this Singapore tax disclosure have the same meaning as defined in the Income Tax Act.

Where interest, discount income, prepayment fee, redemption premium and break cost (i.e. the Qualifying Income) is derived from any of the Relevant Notes by any person who is not resident in Singapore and who carries on any operations in Singapore through a permanent establishment in Singapore, the tax exemption available for qualifying debt securities under the ITA (as mentioned above) shall not apply if such person acquires such Relevant Notes using the funds and profits of such person's operations through a permanent establishment in Singapore.

Notwithstanding that the Issuer is permitted to make payments of Qualifying Income in respect of the Relevant Notes without deduction or withholding for tax under Section 45 or Section 45A of the ITA, any person whose interest, discount income, prepayment fee, redemption premium or break cost (i.e. the Qualifying Income) derived from the Relevant Notes is not exempt from tax is required to include such income in a return of income made under the ITA.

The disclosure in paragraphs 4 to 7 below summarises the income tax treatment currently applicable where the Issuer is not resident in Singapore and not a Singapore Branch of a non-resident person for the purposes of the ITA.

4 Qualifying Debt Securities Scheme

If a Tranche of Notes is issued under the Programme (the "**Relevant Notes**") during the period from the date of this Offering Circular to (and including) 31 December 2023 and if more than half of the Relevant Notes are distributed by a Financial Sector Incentive (Capital Market) Company, a Financial Sector Incentive (Standard Tier) Company or a Financial Sector Incentive (Bond Market) Company (each as defined in the ITA), the Relevant Notes would be "**qualifying debt securities**" pursuant to the ITA and the MAS Circular, to which the following treatment shall apply: subject to certain conditions having been fulfilled (including the submission to the MAS of a return on debt securities in respect of the Relevant Notes in the prescribed format within such period as the MAS may specify and such other particulars in connection with the Relevant Notes as the MAS may require), interest, discount income (not including discount income arising from secondary trading), prepayment fee, redemption premium and break cost (collectively, the "**Qualifying Income**") from the Relevant Notes derived by any company or body of persons (as defined in the ITA) in Singapore is subject to income tax at a concessionary rate of 10 per cent. (except for holders of the relevant Financial Sector Incentive(s) who may be taxed at different rates).

However, notwithstanding the foregoing:

A. if during the primary launch of any tranche of the Relevant Notes, the Relevant Notes of such tranche are issued to less than four persons and 50 per cent. or more of the issue of such Relevant Notes is beneficially held or funded, directly or indirectly, by related parties of the Issuer, such Relevant Notes would not qualify as "qualifying debt securities"; and

B. even though a particular tranche of Relevant Notes are "qualifying debt securities", if at any time during the tenure of such tranche of Relevant Notes, 50 per cent. or more of the issue of such Relevant Notes is beneficially held or funded, directly or indirectly, by any related party(ies) of the Issuer, Qualifying Income derived from such Relevant Notes held by:

   (i) any related party of the Issuer; or

   (ii) any other person where the funds used by such person to acquire such Relevant Notes are obtained, directly or indirectly, from any related party of the Issuer,

   shall not be eligible for concessionary rate of tax as described above.

The term "**related party**", in relation to a person, means any other person who, directly or indirectly, controls that person, or is controlled, directly or indirectly, by that person, or where he and that other person, directly or indirectly, are under the control of a common person.

The terms "**break cost**", "**prepayment fee**" and "**redemption premium**" are defined in the Income Tax Act as follows:

(a) "**break cost**", in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by any loss or liability incurred by the holder of the securities in connection with such redemption;

(b) "**prepayment fee**", in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by the terms of the issuance of the securities; and

(c) "**redemption premium**", in relation to debt securities and qualifying debt securities, means any premium payable by the issuer of the securities on the redemption of the securities upon their maturity.

References to "break cost", "prepayment fee" and "redemption premium" in this Singapore tax disclosure have the same meaning as defined in the Income Tax Act.

5 Capital Gains

Any gains considered to be in the nature of capital made from the sale of the Notes will not be taxable in Singapore. However, any gains derived by any person from the sale of the Notes which are gains from any trade, business, profession or vocation carried on by that person, if accruing in or derived from Singapore, may be taxable as such gains are considered revenue in nature.

Holders of the Notes who apply or are required to apply Singapore Financial Reporting Standards 39 ("**FRS 39**"), 109 ("**FRS 109**") or Singapore Financial Reporting Standards (International) 9 ("**SFRS(I) 9**") may for Singapore income tax purposes be required to recognise gains or losses (not being gains or losses in the nature of capital) on the Notes, irrespective of disposal, in accordance with FRS 39, FRS 109 or SFRS(I) 9 (as the case may be) (as modified by the applicable provisions of Singapore income tax law). Please see the section below on "*Adoption of FRS 39, FRS 109 or SFRS(I) 9 Treatment for Singapore Income Tax Purposes*".

6 Adoption of FRS 39, FRS 109 or SFRS(I) 9 Treatment for Singapore Income Tax Purposes

Section 34A of the Income Tax Act provides for the tax treatment for financial instruments in accordance with FRS 39 (subject to certain exceptions and "opt-out" provisions) to taxpayers who are required to comply with FRS 39 for financial reporting purposes. The IRAS has also issued a circular entitled "Income Tax Implications Arising from the Adoption of FRS 39 – Financial Instruments: Recognition and Measurement".

FRS 109 or SFRS(I) 9 (as the case may be) is mandatorily effective for annual periods beginning on or after 1 January 2018, replacing FRS 39. Section 34AA of the Income Tax Act requires taxpayers who comply or who are required to comply with FRS 109 or SFRS(I) 9 for financial reporting purposes to calculate their profit, loss or expense for Singapore income tax purposes in respect of financial instruments in accordance with FRS 109 or SFRS(I) 9 (as the case may be), subject to certain exceptions. The IRAS has also issued a circular entitled "Income Tax: Income Tax Treatment Arising from Adoption of FRS 109 – Financial Instruments".

Holders of the Notes who may be subject to the tax treatment under Sections 34A or 34AA of the Income Tax Act should consult their own tax advisers regarding the Singapore income tax consequences of their acquisition, holding or disposal of the Notes.

7 Estate Duty

Singapore estate duty has been abolished with respect to all deaths occurring on or after 15 February 2008.

PRC CURRENCY CONTROLS

Remittance of Renminbi into and outside the PRC

The Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

Current Account Items

Under PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and outside the PRC.

Prior to July 2009, all current account items were required to be settled in foreign currencies. On July 2009, the PRC government promulgated Measures for the Administration of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (跨境貿易人民幣結算試點管理辦法) (the "**Measures**") and its implementation rules, pursuant to which designated and eligible enterprises are allowed to settle their cross-border trade transactions in Renminbi. Since July 2009, subject to the Measures and its implementation rules, the PRC has commenced a scheme pursuant to which Renminbi may be used for settlement of cross-border trade between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算試點有關問題的通知), pursuant to which (i) the list of designated pilot districts was expanded to cover 20 provinces including Beijing, Shanghai, Tianjin, Chongqing, Guangdong, Jiangsu, Zhejiang, Liaoning, Shandong and Sichuan, and (ii) the restriction on designated offshore districts was lifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle any current account items between them (except in the case of payments for exports of goods from the PRC, such Renminbi remittance may only be effected by approved pilot enterprises in 16 provinces within the designated pilot districts in the PRC). On 1 August 2011, the PRC government promulgated the Circular on the Expansion of the Regions of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算地區的通知), pursuant to which the list of designated pilot districts was expanded to the whole country. On 3 February 2012, the PRC government promulgated the Circular on the Relevant Issues Pertaining to Administration over Enterprises Engaging in RMB Settlement of Export of Goods (關於出口貨物貿易人民幣結算企業管理有關問題的通知), pursuant to which any enterprises in China which are qualified to engage in import and export trade are allowed to settle their goods export trade in Renminbi. On 29 April 2019, the SAFE issued the Notice on Issuing the Measures for the Administration of the Foreign Exchange Business of Payment Institutions (國家外匯管理局關於印發《支付機構外匯業務管理辦法》的通知), which facilitates domestic institutions and individuals to carry out e-commerce trade through the Internet, standardizes the cross-border capital flows through the Internet channel.

The Measures and the subsequent circulars and notice will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Measures and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlement of capital account items, for example, the capital contribution of foreign investors to foreign invested enterprises in the PRC, were generally required to be made in foreign currencies. Under progressive reforms by PBOC, the Ministry of Commerce of the PRC ("**MOFCOM**") and the State Administration of Foreign Exchange of the PRC ("**SAFE**"), foreign investors are now permitted to make capital contribution, share transfer, profit allocation and liquidation and certain other transactions in Renminbi for their foreign direct investment within the PRC. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements for capital account payments in Renminbi are being removed gradually. In addition, the Circular on Reforming Foreign Exchange Capital Settlement for Foreign Invested Enterprises(關於改革外商投資企業外匯資本金結匯管理方式的通知) which became effective on 1 June 2015 and partly invalidated by Notice by the State Administration of Foreign Exchange of Repealing or Invalidating Five Regulatory Documents on Foreign Exchange Administration and Clauses of Seven Regulatory Documents on Foreign Exchange Administration(國家外匯管理局關於廢止和失效5件外匯管理規範性檔及7件外匯管理規範性檔條款的通知) issued and effective on 30 December 2019, allows foreign invested enterprises to settle 100% (subject to future adjustment at discretion of SAFE) of the foreign currency capital (which has been processed through the SAFE's equity interest confirmation procedure for capital contribution in cash or registered by a bank on the SAFE's system for account-crediting for such capital contribution) into Renminbi according to their actual operational needs. A negative list with respect to the usage of the capital and the Renminbi proceeds through the aforementioned settlement procedure is set forth under the Circular. In particular, a foreign invested enterprise with investment as its main business is permitted to use such Renminbi proceeds to make equity contribution to its invested enterprises directly, without further fillings with SAFE.

PRC entities are also permitted to borrow Renminbi-denominated loans from foreign lenders (which are referred to as "**foreign debt**") and lend Renminbi-denominated loans to foreign borrowers (which are referred to as "**outbound loans**"), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in denominated and make payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as "**cross-border security**"). Under current rules promulgated by SAFE, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. However, there remains potential inconsistencies between the provisions of the SAFE rules and the provisions of the 2013 PBOC Circular. It is not clear how regulators will deal with such inconsistencies in practice.

Nevertheless, since January 2016, PBOC and SAFE have worked to set up the Macro Prudential Assessment ("**MPA**") system in order to unify the management of foreign debt denominated in Renminbi and foreign currencies. The latest MPA system is established pursuant to the 2017 PBOC Circular. Under the MPA system, both non-financial enterprises and financial institutions are allowed to borrow foreign debt within the defined "cross-border financing risk weighted balance limit". They can settle foreign debt proceeds in Renminbi on a voluntary basis, provided that the proceeds should not be used beyond their business scope or in violation of relevant laws and regulations.

According to the 2015 PBOC Circular, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stock, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group. Enterprises within the Shanghai FTZ may establish another cash pool under the Shanghai FTZ rules to extend inter-company loans, although Renminbi funds obtained from financing activities may not be pooled under this arrangement.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and the China Interbank Bond Market ("**CIBM**"), has been further liberalised for foreign investors. The PBOC has relaxed the quota control for RQFII, and has also expanded the list of eligible foreign investors in CIBM, removed certain quota restrictions, and has granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

The Interbank foreign exchange market of the PRC is also gradually opening-up. In January 2016, CFETS set forth qualifications, application materials and procedure for certain foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

Recent reforms introduced were aimed at controlling the remittance of Renminbi for payment of transactions categorised as capital account items. There is no assurance that the PRC Government will continue to gradually liberalise the control over Renminbi payments of capital account item transactions in the future. The relevant regulations are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

CLEARANCE AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream, Luxembourg or the CMU (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor any Dealer or the Arrangers takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.*

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

The Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

CMU

The CMU is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of capital markets instruments ("**CMU Instruments**") which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all members of the Hong Kong Capital Markets Association and "authorised institutions" under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU is limited. In particular (and unlike the European Clearing Systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU

Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-US beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream, Luxembourg, in any Notes held in the CMU will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg, each have with the CMU.

Book-Entry Ownership

Bearer Notes

The Issuer has made applications to Euroclear and Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or a sub-custodian for the CMU. Transfers of interests in a temporary Global Note or a permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream, Luxembourg.

Registered Notes

The Issuer may make applications to Euroclear and Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Global Certificate. The Issuer may also apply to have Notes to be represented by a Global Certificate accepted for clearance through the CMU. Each Global Certificate will have an International Securities Identification Number ("**ISIN**") and a Common Code. Investors in Notes of such Series may hold their interests in a Global Certificate through Euroclear, Clearstream, Luxembourg or the CMU (if applicable).

Each Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "*Subscription and Sale*".

All Registered Notes will initially be in the form of a Global Certificate. Individual Certificates will be available, in the case of Notes initially represented by a Global Certificate, in amounts specified in the applicable Pricing Supplement.

SUBSCRIPTION AND SALE

Summary of the Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated dealer agreement dated 16 January 2023 (the "**Dealer Agreement**") between the Bank, Hong Kong Branch, the Arrangers and the Permanent Dealers, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers as at the date of the Dealer Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arrangers for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers and their affiliates against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement provides that the obligations of the Dealers are subject to certain conditions precedent and entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Arrangers, the Dealers and their respective subsidiaries and affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, corporate financing, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). The Arrangers, the Dealers and their respective subsidiaries and affiliates may have, from time to time, performed and may in the future perform, various Banking Services or Transactions with the Issuer, or its subsidiaries and affiliates, for which they have received, or will receive, customary fees and expenses.

In the ordinary course of their various business activities, the Arrangers, the Dealers and their respective subsidiaries and affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Issuer and its subsidiaries or affiliates. Certain of the Arrangers, the Dealers and their respective subsidiaries and affiliates may from time to time also enter into swap and other derivative transactions with the Issuer and its subsidiaries or affiliates. The Arrangers, the Dealers and their respective subsidiaries and affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

In connection with each Tranche of Notes issued under the Programme, the Arrangers, the Dealers or certain of their subsidiaries or affiliates, or the Issuer and its subsidiaries and affiliates, may act as investors and place orders, purchase and receive allocations and may trade the Notes for their own account and such orders, purchases, allocations or trade of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the offering of the relevant Tranche of Notes. Accordingly, references herein to the Notes being 'offered' should be read as including any offering of the Notes to the Arrangers, the Dealers and/or their respective subsidiaries, or to the Issuer and its subsidiaries and affiliates, as investors for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any applicable legal or regulatory requirements. If such transactions occur, the trading price and liquidity of the Notes may be impacted.

Furthermore, it is possible that a significant proportion of the Notes may be initially allocated to, and subsequently held by, a limited number of investors. If this is the case, the trading price and liquidity of trading in the Notes may be constrained. The Issuer and the Dealers are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors, otherwise than in accordance with any applicable legal or regulatory requirements.

The Arrangers, the Dealers or any of their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or its associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

Important Notice to CMIs (including private banks)

This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for the relevant CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an Association with the Issuer, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the relevant Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer or any CMI (including its group companies) and inform the relevant Dealers accordingly.

CMIs are informed that, unless otherwise notified, the marketing and investor targeting strategy for the relevant CMI Offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any MiFID II product governance language or any UK MiFIR product governance language set out elsewhere in this Offering Circular and/or the applicable Pricing Supplement.

CMIs should ensure that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the relevant Notes (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place "X-orders" into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuer. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the relevant Notes. CMIs are informed that a private bank rebate may be payable as stated above and in the applicable Pricing Supplement, or otherwise notified to prospective investors.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Dealers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the relevant Notes, private banks should disclose, at the same time, if such order is placed other than on a "principal" basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a "principal" basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a "principal" basis may require the relevant affiliated Dealer(s) (if any) to categorise it as a proprietary order and apply the "proprietary orders" requirements of the SFC Code to such order and will result in that private bank not being entitled to, and not being paid, any rebate.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) that are subject to the SFC Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- The name of each underlying investor;
- A unique identification number for each investor;
- Whether an underlying investor has any "Associations" (as used in the SFC Code);
- Whether any underlying investor order is a "Proprietary Order" (as used in the SFC Code);
- Whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to the Dealers named in the relevant Pricing Supplement.

To the extent information being disclosed by CMIs and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to any OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By submitting an order and providing such information to any OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the Issuer, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. CMIs that receive such underlying investor information are reminded that such information should be used only for submitting orders in the relevant CMI Offering. The relevant Dealers may be asked to demonstrate compliance with their obligations under the SFC Code, and may request other CMIs (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMIs (including private banks) are required to provide the relevant Dealer with such evidence within the timeline requested.

By placing an order, prospective investors (including any underlying investors in relation to omnibus orders) are deemed to represent to the Dealers that it is not a Sanctions Restricted Person. A "Sanctions Restricted Person" means an individual or entity (a "**Person**"): (a) that is, or is directly or indirectly owned or controlled by a Person that is, described or designated in (i) the most current "Specially Designated Nationals and Blocked Persons" list (which as of the date hereof can be found at: http://www.treasury.gov/ofac/downloads/sdnlist.pdf) or (ii) the Foreign Sanctions Evaders List (which as of the date hereof can be found at: http://www.treasury.gov/ofac/downloads/fse/fselist.pdf) or (iii) the most current "Consolidated list of persons, groups and entities subject to EU financial sanctions" (which as of the date hereof can be found at: https://eeas.europa.eu/headquarters/headquartershomepage_en/8442/Consolidated%20list%20of%20sanctions); or (b) that is otherwise the subject of any sanctions administered or enforced by any Sanctions Authority, other than solely by virtue of: (i) their inclusion in the most current "Sectoral Sanctions Identifications" list (which as of the date hereof can be found at: https://www.treasury.gov/ofac/downloads/ssi/ssilist.pdf) (the "SSI List"), (ii) their inclusion in Annexes 3, 4, 5 and 6 of Council Regulation No. 833/2014, as amended by Council Regulation No. 960/2014 (the "EU Annexes"), (iii) their inclusion in any other list maintained by a Sanctions Authority, with similar effect to the SSI List or the EU Annexes, (iv) them being the subject of restrictions imposed by the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") under which BIS has restricted exports, re-exports or transfers of certain controlled goods, technology or software to such individuals or entities; (v) them being an entity listed in the Annex to the new Executive Order of 3 June 2021 entitled "Addressing the Threat from Securities Investments that Finance Certain Companies of the People's Republic of China" (known as the Non-SDN Chinese Military- Industrial Complex Companies List), which amends the Executive Order 13959 of 12 November 2020 entitled "Addressing the threat from Securities Investments that Finance Chinese Military Companies"; or (vi) them being subject to restrictions imposed on the operation of an online service, Internet application or other information or communication services in the United States directed at preventing a foreign government from accessing the data of U.S. persons; or (c) that is located, organized or a resident in a comprehensively sanctioned country or territory, including Cuba, Iran, North Korea, Syria, the Crimea region of Ukraine, the Donetsk's People's Republic or Luhansk People's Republic. "Sanctions Authority" means: (a) the United States government; (b) the United Nations; (c) the European Union (or any of its member states); (d) the United Kingdom; (e) any other equivalent governmental or regulatory authority, institution or agency which administers economic, financial or trade sanctions; and (f) the respective governmental institutions and agencies of any of the foregoing including, without limitation, the Office of Foreign Assets Control of the U.S. Department of the Treasury, the United States Department of State, the United States Department of Commerce and His Majesty's Treasury.

Selling Restrictions

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised. No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Notes, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

If a jurisdiction requires that an offering of Notes be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by that Dealers or its affiliate on behalf of the Issuer in such jurisdiction.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it has offered and sold, and shall offer and sell, the Notes of any identifiable tranche (1) as part of their distribution at any time and (2) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Issuer and each relevant Dealer, by the Fiscal Agent or, in the case of Syndicated Issue, the Lead Manager, only in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and shall comply with the offering restrictions requirement of Regulation S. Each Dealer agrees to notify the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager when it has completed the distribution of its portion of the Notes of any identifiable tranche so that the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager may determine the completion of the distribution of all Notes of that tranche and notify the other relevant Dealers of the end of the distribution compliance period. Each Dealer agrees that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Notes covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of Notes of which such Notes are a part, except in either case in accordance with Regulation Sunder the Securities Act. Terms used above have the meaning given to them by Regulation S under the Securities Act."

Terms used in the above paragraph have the meanings given to them by Regulation S.

Bearer Notes having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended (the "**Code**").

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of Notes within the United States by any dealer that is not participating in the offering of such Notes may violate the registration requirements of the Securities Act.

Unless the Pricing Supplement or the Subscription Agreement relating to one or more Tranches specifies that the applicable TEFRA exemption is either "C Rules" or "not applicable", each Dealer has represented and agreed in relation to each Tranche of Notes in bearer form:

(i) except to the extent permitted under U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the "**D Rules**"):

  (a) it has not offered or sold, and during a 40 day restricted period shall not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person; and

  (b) it has not delivered and shall not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;

(ii) it has and throughout the restricted period shall have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(iii) if it is a United States person, it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it shall only do so in accordance with the requirements of U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(6); and

(iv) with respect to each affiliate that acquires from it Notes in bearer form for the purpose of offering or selling such Notes during the restricted period, it either (a) repeats and confirms the representations contained in sub-paragraphs (i), (ii) and (iii) on behalf of such affiliate or (b) agrees that it shall obtain from such affiliate for the benefit of the Issuer the representations contained in sub-paragraphs (i), (ii) and (iii).

Terms used in this paragraph have the meanings given to them by the Code, including the D Rules.

To the extent that the Pricing Supplement or the Subscription Agreement relating to one or more Tranches of Bearer Notes specifies that the applicable TEFRA exemption is "C Rules", under U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the "**C Rules**"), Notes in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. In relation to each such Tranche, each Dealer has represented and agreed that it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. Further, in connection with their original issuance of Notes in bearer form, it has not communicated, and shall not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or it is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Notes in bearer form. Terms used in this paragraph have the meanings given to them by the Code, including the "C Rules".

Each issuance of index-, commodity- or currency-linked Notes shall be subject to such additional U.S. selling restrictions as the relevant Dealer(s) shall agree with the Issuer as a term of the issuance and purchase or, as the case may be, subscription of such Notes. Each relevant Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the applicable Pricing Supplement in relation thereto to any retail investor in the European Economic Area.

For the purposes of this provision:

(i) the expression "**retail investor**" means a person who is one (or more) of the following:

  (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(b) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(c) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"); and

(ii) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Prohibition of sales to UK Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as contemplated by the applicable Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

(i) the expression "**retail investor**" means a person who is one (or more) of the following:

(a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or

(b) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or

(c) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA; and

(ii) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell the Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "**prospectus**" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(c)(ii) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

*Singapore SFA Product Classification: In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

PRC

Each Dealer has represented and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by applicable laws of the People's Republic of China.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the "**Australian Corporations Act**") in relation to the Notes has been, or will be, lodged with the Australian Securities and Investments Commission ("**ASIC**"). Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, unless the relevant Pricing Supplement (or a relevant supplement to this Offering Circular) otherwise provides, it:

(i) has not made or invited, and will not make or invite, an offer of the Notes for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and

(ii) has not distributed or published, and will not distribute or publish, any offering circular or any other offering material or advertisement relating to the Notes in Australia, unless:

(a) the aggregate consideration payable by each offeree is at least A$500,000 (or its equivalent in an alternative currency, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation does not otherwise require disclosure to investors under Parts 6D.2 or 7.9 of the Australian Corporations Act;

(b) the offer or invitation does not constitute an offer to a "retail client" for the purposes of section 761G and 761GA of the Australian Corporations Act;

(c) such action complies with any applicable laws, regulations and directives (including without limitation, the licensing requirements set out in Chapter 7 of the Australian Corporations Act) in Australia; and

(d) such action does not require any document to be lodged with ASIC.

New Zealand

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes may not be offered for issue or sale to any person in New Zealand and no offering document or advertisement may be published or distributed in New Zealand, except to wholesale investors within the meaning of, and in compliance with, the Financial Markets Conduct Act 2013 of New Zealand.

GENERAL INFORMATION

1. **Clearing Systems**: The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. The relevant ISIN, the Common Code and (where applicable) the identification number for any other relevant clearing system for each series of Notes will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

   The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the relevant Pricing Supplement.

2. **Listing**: Application has been made to the HKSE for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period after the date of this document on the HKSE. Application may be made to the HKSE for permission to deal in, and for listing of, any Notes, issued by way of debt issues to Professional Investors only, which are agreed at the time of issue to be so listed on the HKSE. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. There can be no assurance that the application will be approved. Unlisted Notes may also be issued.

3. **NDRC Reporting**: The Notes will be issued in accordance with either (i) the requirements under the NDRC Circular or (ii) an annual foreign debt issuance quota letter issued by the NDRC to the Bank pursuant to the NDRC Circular. In the case of (i), the Bank will make a pre-issuance registration with the NDRC, followed by a post-issuance filing with the NDRC within the prescribed time following issuance of the Notes. In the case of (ii), the Bank is able to rely on such annual foreign debt quota granted by the NDRC and is not required to make any pre-issuance registration for issuance of the Notes within the annual foreign debt quota with the NDRC. However, the Bank will be required to make a post-issuance filing with the NDRC within the prescribed time following issuance of the Notes.

4. **PBOC Reporting**: With respect to any applicable Tranche of the Notes, reporting will be completed by the Bank in accordance with the 2017 PBOC Circular.

5. **Litigation**: None of the Issuer nor any of its subsidiaries is involved in any material litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes, nor is the Issuer or any of its subsidiaries aware that any such proceedings are pending or threatened.

6. **Authorisations**: The relevant Issuer has obtained all necessary consents, approvals and authorisations as may be required in connection with the establishment of the Programme and the issue of this Offering Circular. The establishment and the update of the Programme have been duly authorised by the Bank on 18 June 2014. The relevant Issuer has obtained and has agreed to obtain from time to time all necessary consents, approvals and authorisations for the issue of Notes under the Programme.

7. **No Material Adverse Change**: There has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2022 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 30 June 2022.

8. **Available Documents**: For so long as Notes may be issued pursuant to this Offering Circular, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection upon prior written request and satisfactory proof of holding at the offices of the Issuer and/or the Fiscal Agent:

   (a) the Memorandum and Articles of Association of the Bank;

   (b) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2020 and 2021 (in each case together with the audit reports in connection therewith);

   (c) the unaudited condensed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2022 (together with the review report in connection therewith);

   (d) copies of the most recent annual and interim reports (including the financial statements) published by the Bank;

   (e) the Fiscal Agency Agreement (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons) and the Deed of Covenant;

   (f) a copy of this Offering Circular together with any Supplement to this Offering Circular or further Offering Circular;

   (g) a copy of the subscription agreement for Notes issued on a syndicated basis that are listed on any stock exchange, where the rules of such stock exchange so require;

   (h) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the EEA nor offered in the EEA in circumstances where a prospectus is required to be published under the Prospectus Regulation will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity).

9. **Auditors**: The consolidated financial statements of the Bank as at and for the year ended 31 December 2020, which are included elsewhere in this Offering Circular, have been audited by PricewaterhouseCoopers, the Bank's then independent auditor, as stated in their report appearing herein. The consolidated financial statements of the Bank as at and for the year ended 31 December 2021, which are included elsewhere in this Offering Circular, have been audited by KPMG, the Bank's independent auditor, as stated in their report appearing herein. The unaudited condensed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2022, which are included elsewhere in this Offering Circular, have been reviewed by KPMG, the Bank's independent auditor, as stated in their report appearing therein.

10. **Legal Entity Identifier:** The legal entity identifier of the Bank is 549300E7TSGLCOVSY746.

11. Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

12. The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Pricing Supplement of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Notes:

The audited consolidated financial statements of the Bank set out herein are reproduced from the Bank's annual reports for the years ended 31 December 2020 and 2021. Pages and references included in the audited consolidated financial statements as of and for the years ended 31 December 2020 and 2021 set out herein refer to pages set out in the relevant annual report. The unaudited but reviewed condensed consolidated interim financial statements of the Bank set out herein are reproduced from the Bank's interim report for the six months ended 30 June 2022. Pages and references included in the unaudited but reviewed condensed consolidated interim financial statements as of and for the six months ended 30 June 2022 set out herein refer to pages set out in the relevant interim report.

Report on review of Interim Financial Information

KPMG

To the Board of Directors of Agricultural Bank of China Limited

(Incorporated in the People's Republic of China with Limited Liability)

Introduction

We have reviewed the interim financial information set out on pages 113 to 230, which comprises the condensed consolidated interim statement of financial position of Agricultural Bank of China Limited (the "Bank") and its subsidiaries (collectively the "Group") as of 30 June 2022 and the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity and the condensed consolidated interim statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim Financial Reporting, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial information in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial information and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the International Auditing and Assurance Standards Board. A review of the interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information as at 30 June 2022 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
29 August 2022

Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2022
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Six months ended 30 June 2022 (Unaudited)	2021 (Unaudited)
Interest income	6	**542,773**	493,471
Interest expense	6	**(242,554)**	(210,114)
Net interest income	6	**300,219**	283,357
Fee and commission income	7	**56,227**	57,487
Fee and commission expense	7	**(6,738)**	(9,337)
Net fee and commission income	7	**49,489**	48,150
Net trading gain	8	**7,762**	8,359
Net gain on financial investments	9	**3,188**	1,432
Net gain on derecognition of financial assets measured at amortized cost		**101**	1
Other operating income	10	**26,900**	24,955
Operating income		**387,659**	366,254
Operating expenses	11	**(125,971)**	(116,691)
Credit impairment losses	12	**(105,530)**	(96,138)
Impairment losses on other assets		**(17)**	(3)
Operating profit		**156,141**	153,422
Share of results of associates and joint ventures		**130**	116
Profit before tax		**156,271**	153,538
Income tax expense	13	**(27,321)**	(30,705)
Profit for the period		**128,950**	122,833
Attributable to:			
Equity holders of the Bank		**128,945**	122,278
Non-controlling interests		**5**	555
		128,950	122,833
Earnings per share attributable to the ordinary equity holders of the Bank (expressed in RMB yuan per share)			
— Basic and diluted	15	**0.35**	0.34

The accompanying notes form an integral part of this interim financial information.

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2022
(Amounts in millions of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Profit for the period	**128,950**	122,833
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on other debt instrument investments at fair value through other comprehensive income	**(11,728)**	2,189
Loss allowance on other debt instrument investments at fair value through other comprehensive income	**13,666**	(3,620)
Income tax impact for fair value changes and loss allowance on other debt instrument investments at fair value through other comprehensive income	**(808)**	406
Foreign currency translation differences	**2,013**	(651)
Subtotal	**3,143**	(1,676)
Items that will not be reclassified subsequently to profit or loss:		
Fair value changes on other equity investments designated at fair value through other comprehensive income	**47**	186
Income tax impact for fair value changes on other equity investments designated at fair value through other comprehensive income	**(13)**	(46)
Subtotal	**34**	140
Other comprehensive income, net of tax	**3,177**	(1,536)
Total comprehensive income for the period	**132,127**	121,297
Total comprehensive income attributable to:		
Equity holders of the Bank	**132,164**	120,732
Non-controlling interests	**(37)**	565
	132,127	121,297

The accompanying notes form an integral part of this interim financial information.

Condensed Consolidated Interim Statement of Financial Position

As at 30 June 2022
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Assets			
Cash and balances with central banks	16	**2,669,527**	2,321,406
Deposits with banks and other financial institutions	17	**382,388**	218,500
Precious metals		**181,386**	96,504
Placements with and loans to banks and other financial institutions	18	**541,846**	446,944
Derivative financial assets	19	**33,174**	21,978
Financial assets held under resale agreements	20	**1,106,640**	837,637
Loans and advances to customers	21	**18,036,172**	16,454,503
Financial investments	22		
Financial assets at fair value through profit or loss		**459,865**	460,241
Debt instrument investments at amortized cost		**6,938,657**	6,372,522
Other debt instrument and other equity investments at fair value through other comprehensive income		**1,567,433**	1,397,280
Investment in associates and joint ventures	23	**8,691**	8,297
Property and equipment	24	**149,315**	153,299
Goodwill		**1,381**	1,381
Deferred tax assets	25	**148,034**	143,027
Other assets	26	**201,911**	135,636
Total assets		**32,426,420**	29,069,155
Liabilities			
Borrowings from central banks	27	**939,268**	747,213
Deposits from banks and other financial institutions	28	**2,156,237**	1,622,366
Placements from banks and other financial institutions	29	**349,260**	291,105
Financial liabilities at fair value through profit or loss	30	**11,840**	15,860
Derivative financial liabilities	19	**23,410**	19,337
Financial assets sold under repurchase agreements	31	**20,574**	36,033
Due to customers	32	**24,119,854**	21,907,127
Dividends payable	14	**72,377**	–
Debt securities issued	33	**1,775,531**	1,507,657
Deferred tax liabilities	25	**532**	655
Other liabilities	34	**431,324**	500,443
Total liabilities		**29,900,207**	26,647,796

Condensed Consolidated Interim Statement of Financial Position (Continued)

As at 30 June 2022

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Equity			
Ordinary shares	35	**349,983**	349,983
Other equity instruments	36	**409,869**	359,872
Preference shares		**79,899**	79,899
Perpetual bonds		**329,970**	279,973
Capital reserve	37	**173,556**	173,556
Investment revaluation reserve	38	**36,130**	34,927
Surplus reserve	39	**220,814**	220,792
General reserve	40	**385,387**	351,616
Retained earnings		**943,837**	925,955
Foreign currency translation reserve		**(80)**	(2,096)
Equity attributable to equity holders of the Bank		**2,519,496**	2,414,605
Non-controlling interests		**6,717**	6,754
Total equity		**2,526,213**	2,421,359
Total equity and liabilities		**32,426,420**	29,069,155

Approved and authorized for issue by the Board of Directors on 29 August 2022.

中国农业银行股份有限公司

Chairman

Executive Director

The accompanying notes form an integral part of this interim financial information.

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2022
(Amounts in millions of Renminbi, unless otherwise stated)

		Total equity attributable to equity holders of the Bank										
	Notes	Ordinary shares	Other equity instruments	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Subtotal	Non-controlling interests	Total
As at 31 December 2021 (Audited)		**349,983**	**359,872**	**173,556**	**34,927**	**220,792**	**351,616**	**925,955**	**(2,096)**	**2,414,605**	**6,754**	**2,421,359**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**128,945**	**–**	**128,945**	**5**	**128,950**
Other comprehensive income		**–**	**–**	**–**	**1,203**	**–**	**–**	**–**	**2,016**	**3,219**	**(42)**	**3,177**
Total comprehensive income for the period		**–**	**–**	**–**	**1,203**	**–**	**–**	**128,945**	**2,016**	**132,164**	**(37)**	**132,127**
Capital contribution from equity holders		**–**	**49,997**	**–**	**–**	**–**	**–**	**–**	**–**	**49,997**	**–**	**49,997**
Appropriation to surplus reserve	39	**–**	**–**	**–**	**–**	**22**	**–**	**(22)**	**–**	**–**	**–**	**–**
Appropriation to general reserve	40	**–**	**–**	**–**	**–**	**–**	**33,771**	**(33,771)**	**–**	**–**	**–**	**–**
Dividends paid to ordinary equity holders	14	**–**	**–**	**–**	**–**	**–**	**–**	**(72,376)**	**–**	**(72,376)**	**–**	**(72,376)**
Dividends paid to other equity instrument holders	14	**–**	**–**	**–**	**–**	**–**	**–**	**(4,894)**	**–**	**(4,894)**	**–**	**(4,894)**
As at 30 June 2022 (Unaudited)		**349,983**	**409,869**	**173,556**	**36,130**	**220,814**	**385,387**	**943,837**	**(80)**	**2,519,496**	**6,717**	**2,526,213**
As at 31 December 2020 (Audited)		349,983	319,875	173,556	25,987	196,071	311,449	828,240	(372)	2,204,789	5,957	2,210,746
Profit for the period		–	–	–	–	–	–	122,278	–	122,278	555	122,833
Other comprehensive income		–	–	–	(894)	–	–	–	(652)	(1,546)	10	(1,536)
Total comprehensive income for the period		–	–	–	(894)	–	–	122,278	(652)	120,732	565	121,297
Appropriation to surplus reserve	39	–	–	–	–	283	–	(283)	–	–	–	–
Appropriation to general reserve	40	–	–	–	–	–	40,155	(40,155)	–	–	–	–
Dividends paid to ordinary equity holders	14	–	–	–	–	–	–	(64,782)	–	(64,782)	–	(64,782)
Dividends paid to other equity instrument holders	14	–	–	–	–	–	–	(4,894)	–	(4,894)	–	(4,894)
As at 30 June 2021 (Unaudited)		349,983	319,875	173,556	25,093	196,354	351,604	840,404	(1,024)	2,255,845	6,522	2,262,367
Profit for the period		–	–	–	–	–	–	118,905	–	118,905	198	119,103
Other comprehensive income		–	–	–	9,834	–	–	–	(1,072)	8,762	94	8,856
Total comprehensive income for the period		–	–	–	9,834	–	–	118,905	(1,072)	127,667	292	127,959
Capital contribution from equity holders		–	39,997	–	–	–	–	–	–	39,997	37	40,034
Appropriation to surplus reserve	39	–	–	–	–	24,438	–	(24,438)	–	–	–	–
Appropriation to general reserve	40	–	–	–	–	–	12	(12)	–	–	–	–
Dividends paid to other equity instrument holders	14	–	–	–	–	–	–	(8,904)	–	(8,904)	–	(8,904)
Dividends paid to non-controlling equity holders	14	–	–	–	–	–	–	–	–	–	(97)	(97)
As at 31 December 2021 (Audited)		349,983	359,872	173,556	34,927	220,792	351,616	925,955	(2,096)	2,414,605	6,754	2,421,359

The accompanying notes form an integral part of this interim financial information.

Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 30 June 2022
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Six months ended 30 June 2022 (Unaudited)	Six months ended 30 June 2021 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**156,271**	153,538
Adjustments for:			
Amortization of intangible assets and other assets		**1,539**	1,039
Depreciation of property, equipment and right-of-use assets		**8,618**	8,624
Credit impairment losses		**105,530**	96,138
Impairment losses on other assets		**17**	3
Interest income arising from investment securities		**(133,313)**	(123,643)
Interest expense on debt securities issued		**20,181**	19,082
Revaluation (gain)/loss on financial instruments at fair value through profit or loss		**(4,751)**	4,269
Net gain on investment securities		**(922)**	(218)
Share of results of associates and joint ventures		**(130)**	(116)
Net gain on disposal of property, equipment and other assets		**(385)**	(500)
Net foreign exchange (gain)/loss		**(13,587)**	5,577
		139,068	163,793
Net changes in operating assets and operating liabilities:			
Net (increase)/decrease in balances with central banks, deposits with banks and other financial institutions		**(260,018)**	94,187
Net (increase)/decrease in placements with and loans to banks and other financial institutions		**(27,180)**	24,627
Net (increase)/decrease in financial assets held under resale agreements		**(950)**	17,104
Net increase in loans and advances to customers		**(1,632,860)**	(1,388,244)
Net increase/(decrease) in borrowings from central banks		**183,191**	(42,136)
Net increase/(decrease) in placements from banks and other financial institutions		**58,080**	(40,563)
Net increase in due to customers and deposits from banks and other financial institutions		**2,730,991**	1,556,652
Increase in other operating assets		**(192,148)**	(42,706)
Decrease in other operating liabilities		**(22,286)**	(124,216)
Cash from operations		**975,888**	218,498
Income tax paid		**(67,103)**	(57,333)
NET CASH FROM OPERATING ACTIVITIES		**908,785**	161,165

Condensed Consolidated Interim Statement of Cash Flows (Continued)

For the six months ended 30 June 2022
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Six months ended 30 June 2022 (Unaudited)	2021 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from disposal/redemption of investment securities		**989,979**	726,134
Cash received from investment income		**127,180**	121,088
Cash received from disposal of investment in associates and joint ventures		**302**	530
Cash received from disposal of property, equipment and other assets		**3,232**	2,255
Cash paid for purchase of investment securities		**(1,724,331)**	(978,522)
Increase in investment in associates and joint ventures		**(1,000)**	(809)
Cash paid for purchase of property, equipment and other assets		**(8,712)**	(9,288)
NET CASH USED IN INVESTING ACTIVITIES		**(613,350)**	(138,612)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution from issues of other equity instruments		**50,000**	–
Cash payments for transaction cost of other equity instruments issued		**(3)**	–
Cash received from debt securities issued		**1,100,679**	841,711
Cash payments for transaction cost of debt securities issued		**(10)**	(15)
Repayments of debt securities issued		**(828,466)**	(766,922)
Cash payments for interest on debt securities issued		**(28,341)**	(22,907)
Cash payments for principal portion and interest portion of the lease liability		**(2,277)**	(2,103)
Dividends paid		**(4,894)**	(68,271)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		**286,688**	(18,507)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**582,123**	4,046
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		**1,124,762**	1,175,153
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**5,727**	(5,776)
CASH AND CASH EQUIVALENTS AS AT 30 JUNE	41	**1,712,612**	1,173,423
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		**374,858**	353,192
Interest paid		**(197,838)**	(170,285)

The accompanying notes form an integral part of this interim financial information.

1 GENERAL INFORMATION

Agricultural Bank of China Limited (the "Bank") is the successor entity to the Agricultural Bank of China (the "Predecessor Entity") which was a wholly state-owned commercial bank approved for setup by the People's Bank of China (the "PBOC") and founded on 23 February 1979 in the People's Republic of China (the "PRC"). On 15 January 2009, the Bank was established after the completion of the financial restructuring of the Predecessor Entity. The Bank's establishment was authorized by the PBOC. The Bank was listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited on 15 July 2010 and 16 July 2010, respectively.

The Bank operates under financial services certificate No. B0002H111000001 issued by the China Banking and Insurance Regulatory Commission (the "CBIRC"), and business license No. 911100001000054748 issued by Beijing Administration of Industry and Commerce. The registered office of the Bank is located at No. 69 Jianguomen Nei Avenue, Dongcheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively, the "Group") include Renminbi ("RMB") and foreign currency deposits, loans, clearing and settlement services, assets custodian services, fund management, financial leasing services, insurance services and other services as approved by relevant regulators, and the provision of related services by its overseas establishments as approved by the respective local regulators.

The head office and domestic branches of the Bank and its subsidiaries operating in the Chinese mainland are referred to as "Domestic Institutions". Branches and subsidiaries registered and operating outside of the Chinese mainland are referred to as "Overseas Institutions".

2 BASIS OF PREPARATION

The unaudited interim financial information for the six months ended 30 June 2022 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting", as well as with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

3 PRINCIPAL ACCOUNTING POLICIES

The unaudited interim financial information have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. The principal accounting policies and methods of computation used in preparing the interim financial information are the same as those followed in the preparation of the Group's annual financial information for the year ended 31 December 2021.

The interim financial information should be read in conjunction with the Group's annual financial information for the year ended 31 December 2021, which have been audited.

(Amounts in millions of Renminbi, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Standards and amendments effective in 2022 relevant to and adopted by the Group

In the current reporting period, the Group has adopted the following International Financial Reporting Standards ("IFRSs") and amendments issued by the International Accounting Standards Board ("IASB"), that are mandatorily effective for the current reporting period.

			Effective for annual periods beginning on or after	Note
(1)	Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022	(i)
(2)	Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022	(i)
(3)	Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022	(i)
(4)	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	IASB Annual Improvements 2018–2020 cycle	1 January 2022	(i)

(i) Description of these standards and amendments were disclosed in the Group's annual financial information for the year ended 31 December 2021. The adoption of these standards and amendments does not have a significant impact on the financial information of the Group.

3.2 Standards and amendments relevant to the Group that are not yet effective in the current reporting period and have not been adopted before their effective dates by the Group

The Group has not adopted the following new or amended standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee ("IFRIC"), that have been issued but are not yet effective.

			Effective for annual periods beginning on or after	Notes
(1)	Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023	(i)
(2)	Amendments to IFRS 17	Insurance Contracts	1 January 2023	(ii)
(3)	Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023	(i)
(4)	Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023	(i)
(5)	Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	(i)
(6)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The effective date has now been deferred.	(i)

(i) Descriptions of these standards and amendments were disclosed in the Group's annual financial information for the year ended 31 December 2021. The Group anticipates that the adoption of these standards and amendments will not have a significant impact on the Group's financial information.

(ii) Amendments to IFRS 17: Insurance Contracts

Descriptions of this amendment was disclosed in the Group's annual financial information for the year ended 31 December 2021. The Group has not completed its assessment of the impact on the Group's financial information of adopting IFRS 17.

(Amounts in millions of Renminbi, unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expense. Actual results may differ from these estimates.

In preparing this interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual financial information for the year ended 31 December 2021.

5 INVESTMENT IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND STRUCTURED ENTITIES

(1) Investment in subsidiaries

The followings are the principal subsidiaries of the Bank as at 30 June 2022:

Name of entity	Notes	Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
China Agricultural Finance Co., Ltd.		1 November 1988	Hong Kong, PRC	HKD588,790,000	100.00	100.00	Investment holding
ABC International Holdings Limited		11 November 2009	Hong Kong, PRC	HKD4,113,392,450	100.00	100.00	Investment holding
ABC Financial Leasing Co., Ltd.		29 September 2010	Shanghai, PRC	RMB9,500,000,000	100.00	100.00	Financial leasing
Agricultural Bank of China (UK) Limited		29 November 2011	London, United Kingdom	USD100,000,002	100.00	100.00	Banking
ABC-CA Fund Management Co., Ltd.		18 March 2008	Shanghai, PRC	RMB1,750,000,001	51.67	51.67	Fund management
ABC Hexigten Rural Bank Limited Liability Company		12 August 2008	Inner Mongolia, PRC	RMB19,600,000	51.02	51.02	Banking
ABC Hubei Hanchuan Rural Bank Limited Liability Company	(i)	12 August 2008	Hubei, PRC	RMB31,000,000	50.00	66.67	Banking
ABC Jixi Rural Bank Limited Liability Company		25 May 2010	Anhui, PRC	RMB29,400,000	51.02	51.02	Banking
ABC Ansai Rural Bank Limited Liability Company		30 March 2010	Shaanxi, PRC	RMB40,000,000	51.00	51.00	Banking
ABC Zhejiang Yongkang Rural Bank Limited Liability Company		20 April 2012	Zhejiang, PRC	RMB210,000,000	51.00	51.00	Banking
ABC Xiamen Tong'an Rural Bank Limited Liability Company		24 May 2012	Fujian, PRC	RMB150,000,000	51.00	51.00	Banking
ABC Life Insurance Co., Ltd.	(ii)	19 December 2005	Beijing, PRC	RMB2,949,916,475	51.00	51.00	Life insurance
Agricultural Bank of China (Luxembourg) Limited		26 November 2014	Luxembourg, Luxembourg	EUR20,000,000	100.00	100.00	Banking
Agricultural Bank of China (Moscow) Limited		23 December 2014	Moscow, Russia	RUB7,556,038,271	100.00	100.00	Banking
ABC Financial Asset Investment Co., Ltd.		1 August 2017	Beijing, PRC	RMB20,000,000,000	100.00	100.00	Debt-to-equity swap and related services
Agricultural Bank of China Wealth Management Co., Ltd.		25 July 2019	Beijing, PRC	RMB12,000,000,000	100.00	100.00	Wealth management

5 INVESTMENT IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND STRUCTURED ENTITIES (Continued)

(1) Investment in subsidiaries (Continued)

For the six months ended 30 June 2022, there were no changes in the proportion of equity interest or voting rights the Bank held in its subsidiaries.

(i) Two of the three directors on the board of ABC Hubei Hanchuan Rural Bank Limited Liability Company were appointed by the Bank. The Bank concluded that it has effective control over and has included this entity in its consolidation scope.

(ii) On 31 December 2012, the Bank acquired 51% of the issued share capital of Jiahe Life Insurance Co., Ltd. and renamed it as ABC Life Insurance Co., Ltd. ("ABC Life Insurance"). The Group recognized goodwill of RMB1,381 million as a result of this acquisition. During the year ended 31 December 2016, the Bank and other investors contributed additional capital totalling RMB3,761 million to ABC Life Insurance, comprising registered capital of RMB917 million and capital reserve of RMB2,844 million. After the capital injection, the proportion of equity interest and voting rights the Bank held in ABC Life Insurance remained at 51%.

As at 30 June 2022, there was no objective evidence noted for any goodwill impairment.

(Amounts in millions of Renminbi, unless otherwise stated)

5 INVESTMENT IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND STRUCTURED ENTITIES (Continued)

(2) Investment in associates

Name of entity	Notes	Date of establishment	Place of incorporation/ business	Authorized capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
Sino-Congolese Bank of Africa	(i)	2015	Brazzaville, Congo	XAF53,342,800,000	50.00	50.00	Bank
Shenzhen Yuanzhifuhai No.6 Investment Enterprise (Limited Partnership)	(ii)	2015	Guangdong, PRC	RMB1,110,854,000	9.00	20.00	Equity investment, investment management and investment advisory service
Beijing Guofa Aero Engine Industry Investment Fund Center (Limited Partnership)	(ii)	2018	Beijing, PRC	RMB6,343,200,000	15.61	20.00	Non-securities investment activities and related advisory services
Jilin Hongqizhiwang New Energy Automobile Fund Investment Management Center (Limited Partnership)	(ii)	2019	Jilin, PRC	RMB3,885,500,000	25.26	20.00	Non-securities investment activities and related advisory services
Xinyuan (Beijing) Debt-to-Equity Special Equity Investment Center (Limited Partnership)	(ii)	2020	Beijing, PRC	RMB6,000,000,000	15.67	14.29	Equity investment
National Green Development Fund Co., Ltd.	(iii)	2020	Shanghai, PRC	RMB88,500,000,000	9.04	9.04	Equity investment, project investment and investment management
National Social Endowment Insurance Co., Ltd.	(iv)	2022	Beijing, PRC	RMB11,150,000,000	8.97	8.97	Insurance

(i) On 28 May 2015, the Sino-Congolese Bank of Africa (La Banque Sino-Congolaise pour l'Afrique, hereinafter referred to as BSCA.Bank), established by the Bank and other investors with authorized capital denominated in Central African CFA franc ("XAF"), was granted the required banking license by the local regulatory authority. The Bank holds 50% equity interest and voting rights in BSCA.Bank, and has the right to participate in the financial and operational decisions of BSCA.Bank, but does not constitute control or joint control over those decisions.

(ii) The Bank's wholly-owned subsidiary, ABC Financial Asset Investment Co., Ltd. and other investors invested in the above mentioned enterprises. The Group has the right to participate in the financial and operational decisions of these enterprises, but does not constitute control or joint control over those decisions.

(iii) The Bank was approved to participate in the investment in National Green Development Fund Co., Ltd. in 2021. The Bank holds 9.04% equity interest and has the right to participate in the financial and operational decisions, but does not constitute control or joint control over those decisions.

(iv) The Bank's wholly-owned subsidiary, Agricultural Bank of China Wealth Management Co., Ltd. and other investors invested in the above mentioned enterprise. The Group has the right to participate in the financial and operational decisions of the enterprise, but does not constitute control or joint control over those decisions.

(Amounts in millions of Renminbi, unless otherwise stated)

5 INVESTMENT IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND STRUCTURED ENTITIES (Continued)

(3) Investment in joint ventures

Name of entity	Date of establishment	Place of incorporation/ business	Authorized capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
Jiangsu Jiequansuihe State-owned Enterprise Mixed Ownership Reform Fund (Limited Partnership)	2018	Jiangsu, PRC	RMB1,000,000,000	69.00	28.57	Equity investment, debt-to-equity and related supporting services
Nongjin Gaotou (Hubei) Debt-to-Equity Investment Fund (Limited Partnership)	2018	Hubei, PRC	RMB500,000,000	74.00	33.33	Non-securities equity investment activities and related advisory services
Jiaxing Suihe New Silk Road Investment Fund (Limited Partnership)	2018	Zhejiang, PRC	RMB1,500,000,000	66.67	50.00	Industrial investment and equity investment
Zhejiang New Power Fund (Limited Partnership)	2018	Zhejiang, PRC	RMB2,000,000,000	50.00	50.00	Industrial investment and equity investment
Inner Mongolia Mengxingzhuli Development Fund Investment Center (Limited Partnership)	2018	Inner Mongolia, PRC	RMB2,000,000,000	50.00	50.00	Equity investment, investment management and investment advisory service
Shanghai Guohua Oil&Gas Equity Investment Fund, Ltd.	2019	Shanghai, PRC	RMB1,800,000,000	66.67	50.00	Equity investment, project investment, investment advisory and asset management
Nongyizihuan (Jiaxing) Equity Investment Partnership (Limited Partnership)	2019	Zhejiang, PRC	RMB400,000,000	70.00	50.00	Equity investment
Jianxinjintou Infrastructure Equity Investment (Tianjin) Fund (Limited Partnership)	2019	Tianjin, PRC	RMB3,500,000,000	20.00	20.00	Equity investment and investment management
Shaanxi Suihe Equity Investment Fund Partnership (Limited Partnership)	2019	Shaanxi, PRC	RMB1,000,000,000	50.00	50.00	Equity investment

The Bank's wholly-owned subsidiary, ABC Financial Asset Investment Co., Ltd. and other investors established the above-mentioned entities. According to the agreements, matters considered at the Meeting of Partners or investment decision-making committee shall be approved by the unanimous consent of all the partners or all the committee members. The Group constitutes joint control over the financial and operational decisions of these enterprises with the other investors.

(4) Structured entities

The Group also consolidated structured entities as disclosed in Note 44 Structured Entities.

(Amounts in millions of Renminbi, unless otherwise stated)

6 NET INTEREST INCOME

	Six months ended 30 June	
	2022	2021
Interest income		
Loans and advances to customers	**377,037**	336,144
Including: Corporate loans and advances	**203,905**	184,426
Personal loans and advances	**173,132**	151,718
Financial investments		
Debt instrument investments at amortized cost	**110,860**	100,320
Other debt instrument investments at fair value through other comprehensive income	**22,453**	23,323
Balances with central banks	**16,532**	18,150
Financial assets held under resale agreements	**9,154**	6,986
Deposits with banks and other financial institutions	**3,652**	5,266
Placements with and loans to banks and other financial institutions	**3,085**	3,282
Subtotal	**542,773**	493,471
Interest expense		
Due to customers	**(184,124)**	(159,674)
Deposits from banks and other financial institutions	**(24,124)**	(19,046)
Debt securities issued	**(20,181)**	(19,082)
Borrowings from central banks	**(12,083)**	(10,205)
Placements from banks and other financial institutions	**(1,890)**	(1,907)
Financial assets sold under repurchase agreements	**(152)**	(200)
Subtotal	**(242,554)**	(210,114)
Net interest income	**300,219**	283,357

(Amounts in millions of Renminbi, unless otherwise stated)

7 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2022	2021
Fee and commission income		
Agency services	**14,140**	14,014
Electronic banking services	**13,786**	15,433
Consultancy and advisory services	**9,309**	9,757
Bank cards	**8,416**	7,472
Settlement and clearing services	**6,786**	7,114
Custodian and other fiduciary	**2,323**	2,076
Credit commitment	**1,192**	1,257
Others	**275**	364
Subtotal	**56,227**	57,487
Fee and commission expense		
Bank cards	**(3,911)**	(6,277)
Electronic banking services	**(1,678)**	(1,701)
Settlement and clearing services	**(739)**	(762)
Others	**(410)**	(597)
Subtotal	**(6,738)**	(9,337)
Net fee and commission income	**49,489**	48,150

8 NET TRADING GAIN

		Six months ended 30 June	
	Note	**2022**	2021
Net gain on debt instruments held for trading		**8,040**	2,259
Net gain on precious metals	(1)	**1,389**	2,737
Net (loss)/gain on foreign exchange rate derivatives		**(1,578)**	3,167
Net gain on interest rate derivatives		**86**	478
Others		**(175)**	(282)
Total		**7,762**	8,359

(1) Net gain on precious metals consists of net gain on precious metals and precious metal related derivative products.

(Amounts in millions of Renminbi, unless otherwise stated)

9 NET GAIN ON FINANCIAL INVESTMENTS

	Note	Six months ended 30 June 2022	2021
Net loss on debt instruments designated as at fair value through profit or loss		**(25)**	(132)
Net gain on other debt instruments and equity investments measured at fair value through profit or loss		**2,931**	6,907
Net loss on financial liabilities designated as at fair value through profit or loss	(1)	**(363)**	(6,089)
Net gain on other debt instrument and other equity investments measured at fair value through other comprehensive income		**829**	218
Net gain on underlying assets and liabilities related to principal guaranteed wealth management products designated as at fair value through profit or loss		**–**	639
Others		**(184)**	(111)
Total		**3,188**	1,432

(1) *Net loss on financial liabilities designated as at fair value through profit or loss consists of the payable amount upon the maturity of structured deposits measured at fair value through profit or loss.*

10 OTHER OPERATING INCOME

	Six months ended 30 June 2022	2021
Insurance premium	**25,863**	22,703
Rental income	**595**	505
Gain on disposal of property and equipment	**376**	511
Government grant	**302**	465
Net loss on foreign exchange	**(767)**	(5)
Others	**531**	776
Total	**26,900**	24,955

11 OPERATING EXPENSES

	Notes	Six months ended 30 June 2022	2021
Staff costs	(1)	**63,624**	61,993
Insurance benefits and claims		**26,218**	22,722
General operating and administrative expenses		**21,480**	18,032
Depreciation and amortization		**9,906**	9,663
Tax and surcharges	(2)	**3,399**	3,188
Others		**1,344**	1,093
Total		**125,971**	116,691

(Amounts in millions of Renminbi, unless otherwise stated)

11 OPERATING EXPENSES (Continued)

(1) Staff costs

	Six months ended 30 June	
	2022	2021
Short-term employee benefits		
Salaries, bonuses, allowance and subsidies	**41,634**	40,520
Housing funds	**4,722**	4,558
Social insurance	**3,055**	2,939
Including: Medical insurance	**2,883**	2,751
Maternity insurance	**92**	111
Employment injury insurance	**80**	77
Labor union fees and staff education expenses	**1,827**	1,805
Others	**3,564**	3,648
Subtotal	**54,802**	53,470
Defined contribution benefits	**8,809**	8,526
Early retirement benefits	**13**	(3)
Total	**63,624**	61,993

(2) City maintenance and construction tax is calculated at 1%, 5% or 7% of VAT and consumption tax for the Group's Domestic Operations.

Education surcharge is calculated at 3%, while local education surcharge is calculated at 2% of VAT and consumption tax for the Group's Domestic Operations.

12 CREDIT IMPAIRMENT LOSSES

	Six months ended 30 June	
	2022	2021
Loans and advances to customers	**92,777**	92,011
Financial investments		
Debt instrument investments at amortized cost	**2,197**	1,703
Other debt instrument investments at fair value through other comprehensive income	**1,251**	7
Provision for guarantees and commitments	**8,384**	3,372
Placements with and loans to banks and other financial institutions	**178**	(16)
Deposits with banks and other financial institutions	**678**	(418)
Financial assets held under resale agreements	**166**	(725)
Others	**(101)**	204
Total	**105,530**	96,138

(Amounts in millions of Renminbi, unless otherwise stated)

13 INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
Current income tax		
— PRC Enterprise Income Tax	**32,865**	31,102
— Hong Kong SAR Income Tax	**308**	268
— Other jurisdictions Income Tax	**99**	213
Subtotal	**33,272**	31,583
Deferred tax (Note 25)	**(5,951)**	(878)
Total	**27,321**	30,705

PRC Enterprise Income Tax is calculated at 25% of the estimated taxable profit for the current and prior periods, and also includes supplementary PRC tax on Overseas Branches as determined in accordance with the relevant PRC income tax rules and regulations. Pre-tax deduction items of enterprise income tax are governed by the relevant tax regulations in Chinese mainland. Taxation arising in other jurisdictions (including Hong Kong SAR) is calculated at the rates prevailing in the relevant jurisdictions.

The tax charges for the six months ended 30 June 2022 and 30 June 2021 can be reconciled to the profit per the condensed consolidated interim income statement as follows:

		Six months ended 30 June	
	Note	**2022**	2021
Profit before tax		**156,271**	153,538
Tax calculated at applicable PRC statutory tax rate of 25%		**39,068**	38,385
Tax effect of income not taxable for tax purpose	(1)	**(22,201)**	(19,999)
Tax effect of costs, expenses and losses not deductible for tax purpose		**11,196**	13,115
Tax effect of perpetual bond interest expense		**(740)**	(740)
Effect of different tax rates in overseas institutions		**(2)**	(56)
Income tax expense		**27,321**	30,705

(1) Non-taxable income primarily includes interest income from PRC treasury bonds and municipal government bonds.

(Amounts in millions of Renminbi, unless otherwise stated)

14 DIVIDENDS

	Notes	Six months ended 30 June 2022	2021
Dividends on ordinary shares declared			
Cash dividend related to 2021	(2)	**72,376**	–
Cash dividend related to 2020	(3)	**–**	64,782
		72,376	64,782
Dividends on preference shares declared and paid	(4)	**1,936**	1,936
Interest on perpetual bonds declared and paid	(5)	**2,958**	2,958

(1) No dividends on ordinary shares related to the period from 1 January 2022 to 30 June 2022 were proposed, declared and paid or payable during the current period. The Board of Directors do not recommend any interim dividend for the six months ended 30 June 2022.

(2) Distribution of final dividend for 2021

A cash dividend of RMB0.2068 per ordinary share related to 2021, amounting to RMB72,376 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2021 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 29 June 2022.

The general reserve and dividend unpaid were recognized as at 30 June 2022 and the dividend was paid in July 2022.

(3) Distribution of final dividend for 2020

A cash dividend of RMB0.1851 per ordinary share related to 2020, amounting to RMB64,782 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2020 as determined in accordance with the PRC GAAP, at the annual general meeting held on 27 May 2021.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2021.

(4) Distribution of dividend on preference shares

A cash dividend at the dividend rate of 4.84% per annum related to the second tranche of preference shares for the period of 2021 to 2022 amounting to RMB1,936 million in total was approved at the Board of Directors' Meeting held on 26 January 2022 and distributed on 11 March 2022.

A cash dividend at the dividend rate of 4.84% per annum related to the second tranche of preference shares for the period of 2020 to 2021 amounting to RMB1,936 million in total was approved at the Board of Directors' Meeting held on 27 January 2021 and distributed on 11 March 2021.

A cash dividend at the dividend rate of 5.32% per annum related to the first tranche of preference shares for the period of 2020 to 2021 amounting to RMB2,128 million in total was approved at the Board of Directors' Meeting held on 30 August 2021 and distributed on 5 November 2021.

14 DIVIDENDS (Continued)

(5) *Distribution of interest on perpetual bonds*

An interest at the interest rate of 3.48% per annum related to the first tranche of perpetual bonds of RMB85 billion amounting to RMB2,958 million in total was declared on 7 May 2022 and distributed on 12 May 2022.

An interest at the interest rate of 3.48% per annum related to the first tranche of perpetual bonds of RMB85 billion amounting to RMB2,958 million in total was declared on 7 May 2021 and distributed on 12 May 2021.

An interest at the interest rate of 4.39% per annum related to the first tranche of perpetual bonds of RMB85 billion amounting to RMB3,732 million in total was declared on 17 August 2021 and distributed on 20 August 2021.

An interest at the interest rate of 4.50% per annum related to the second tranche of perpetual bonds of RMB35 billion amounting to RMB1,575 million in total was declared on 19 August 2021 and distributed on 24 August 2021.

An interest at the interest rate of 4.20% per annum related to the second tranche of perpetual bonds of RMB35 billion amounting to RMB1,470 million in total was declared on 2 September 2021 and distributed on 6 September 2021.

15 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is as follows:

	Six months ended 30 June	
	2022	2021
Earnings:		
Profit for the period attributable to equity holders of the Bank	**128,945**	122,278
Less: profit for the period attributable to other equity instruments holders of the Bank	**(4,894)**	(4,894)
Profit for the period attributable to ordinary equity holders of the Bank	**124,051**	117,384
Number of shares:		
Weighted average number of ordinary shares in issue (In millions)	**349,983**	349,983
Basic and diluted earnings per share (RMB yuan)	**0.35**	0.34

For the years ended 31 December 2015 and 31 December 2014, the Bank issued two non-cumulative preference shares, respectively, and the specific terms are included in Note 36 Other Equity Instruments.

For the six months ended 30 June 2022 and for the year ended 31 December 2021, 2020 and 2019, the Bank issued six non-cumulative undated tier 1 capital bonds, respectively, and the specific terms are included in Note 36 Other Equity Instruments.

For the purpose of calculating basic earnings per share for the six months ended 30 June 2022, cash dividends and interest of RMB4,894 million of non-cumulative preference shares and non-cumulative undated tier 1 capital bonds declared and distributed were deducted from the profit for the period attributable to equity holders of the Bank (six months ended 30 June 2021: cash dividends of RMB4,894 million of non-cumulative preference shares and undated tier 1 capital bonds).

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the six months ended 30 June 2022 and 30 June 2021, and therefore the conversion feature of preference shares has no dilutive effect on earnings per share calculation.

(Amounts in millions of Renminbi, unless otherwise stated)

16 CASH AND BALANCES WITH CENTRAL BANKS

	Notes	30 June 2022	31 December 2021
Cash		**71,848**	74,610
Mandatory reserve deposits with central banks	(1)	**2,080,404**	1,973,077
Surplus reserve deposits with central banks	(2)	**355,402**	101,010
Other deposits with central banks	(3)	**160,898**	171,765
Subtotal		**2,668,552**	2,320,462
Accrued interest		**975**	944
Total		**2,669,527**	2,321,406

(1) *The Group places mandatory reserve deposits with the PBOC and overseas regulatory bodies. These include RMB reserve deposits and foreign currency reserve deposits that are not available for use in the Group's daily operations.*

As at 30 June 2022, the mandatory deposit reserve ratios of the domestic branches of the Bank in respect of customer deposits denominated in RMB and foreign currencies were consistent with the requirement of the PBOC. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group are determined by the PBOC. The amounts of mandatory reserve deposits placed with the central banks of those countries or regions outside Chinese mainland are determined by local jurisdictions.

(2) *Surplus reserve deposits with central banks include funds for the purpose of cash settlement and other kinds of unrestricted deposits.*

(3) *Other deposits with central banks primarily represent fiscal deposits placed with the PBOC that are not available for use in the Group's daily operations.*

17 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2022	31 December 2021
Deposits with:		
Domestic banks	**336,700**	184,968
Other domestic financial institutions	**10,647**	10,345
Overseas banks	**34,646**	22,507
Subtotal	**381,993**	217,820
Accrued interest	**2,538**	2,140
Allowance for impairment losses	**(2,143)**	(1,460)
Deposits with banks and other financial institutions, net	**382,388**	218,500

(Amounts in millions of Renminbi, unless otherwise stated)

18 PLACEMENTS WITH AND LOANS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2022	31 December 2021
Placements with and loans to:		
Domestic banks	**284,032**	250,953
Other domestic financial institutions	**115,849**	93,315
Overseas banks and other financial institutions	**143,324**	104,295
Subtotal	**543,205**	448,563
Accrued interest	**1,588**	1,080
Allowance for impairment losses	**(2,947)**	(2,699)
Placements with and loans to banks and other financial institutions, net	**541,846**	446,944

19 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group primarily enters into foreign exchange rate, interest rate and precious metal derivative contracts related to trading, asset and liability management, and customer initiated transactions.

The contractual/notional amounts and fair values of the derivative financial instruments entered into by the Group are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognized in the consolidated interim statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregated fair values of derivative financial assets and liabilities can fluctuate significantly in different periods.

Certain financial assets and financial liabilities of the Group are subject to enforceable master net settlement arrangements or similar agreements. The agreements between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master net settlement arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. The Group did not offset these financial assets and financial liabilities on a net basis. As at 30 June 2022 and 31 December 2021, the Group does not hold any other financial assets or liabilities, other than derivatives, that are subject to master net settlement arrangements or similar agreements.

(Amounts in millions of Renminbi, unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

	30 June 2022		
	Contractual/ notional amount	**Fair value**	
		Assets	**Liabilities**
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	**2,037,946**	**23,483**	**(20,054)**
Currency options	**70,537**	**1,093**	**(453)**
Subtotal		**24,576**	**(20,507)**
Interest rate derivatives			
Interest rate swaps	**219,453**	**2,126**	**(1,053)**
Precious metal contracts	**253,427**	**6,472**	**(1,850)**
Total derivative financial assets and liabilities		**33,174**	**(23,410)**

	31 December 2021		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	2,145,080	18,983	(14,402)
Currency options	51,631	1,133	(332)
Subtotal		20,116	(14,734)
Interest rate derivatives			
Interest rate swaps	271,371	1,141	(2,366)
Precious metal contracts	145,374	721	(2,237)
Total derivative financial assets and liabilities		21,978	(19,337)

Credit risk weighted amount for derivative transaction counterparties represents the counterparty credit risk associated with derivative transactions and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC which was effective from 1 January 2013 and "Measurement Rule of Counterparty Default Risk Weighted Assets on Derivatives" issued by the CBIRC which was effective from 1 January 2019, and is dependent on, among other factors, creditworthiness of customers and maturity characteristics of each type of contract. As at 30 June 2022 and 31 December 2021, the credit risk weighted amount for derivative transaction counterparties was measured under the Internal Ratings-Based approach.

	30 June 2022	31 December 2021
Counterparty credit default risk-weighted assets	**78,426**	49,277
Credit value adjustment risk-weighted assets	**8,753**	6,943
Total	**87,179**	56,220

(Amounts in millions of Renminbi, unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

(1) Fair value hedges

The following designated fair value hedging instruments are included in the derivative financial instruments disclosed above:

	30 June 2022		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Interest rate swaps	**39,944**	**816**	**(70)**

	31 December 2021		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Interest rate swaps	48,716	33	(1,104)

The Group uses interest rate swaps to hedge against changes arising from changes in interest rates in fair value of loans and advances to customers, other debt instrument investments at fair value through other comprehensive income.

The Group's net gain/(loss) on fair value hedges are as follow:

	Six months ended 30 June	
	2022	2021
Net gain/(loss) on		
hedging instruments	**1,988**	(702)
hedged items	**(2,012)**	662

The gain and loss arising from the ineffective portion of fair value hedges were immaterial for the six months ended 30 June 2022 and the six months ended 30 June 2021.

The following table shows maturity details with notional amount of hedging instruments disclosed above:

	Fair value hedges					
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
30 June 2022	**544**	**1,268**	**8,410**	**25,437**	**4,285**	**39,944**
31 December 2021	861	3,958	9,203	30,412	4,282	48,716

(Amounts in millions of Renminbi, unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

(1) Fair value hedges (Continued)

The following table sets out the details of the hedged items covered by the Group's fair value hedging strategies:

	30 June 2022				
	Carrying amount of hedged items		**Accumulated amount of fair value adjustments on the hedged items**		**Line items in the statement of financial position**
	Assets	**Liabilities**	**Assets**	**Liabilities**	
Bonds	**38,895**	**–**	**–**	**–**	**Other debt instrument investments at fair value through other comprehensive income**
Loans	**2,668**	**–**	**–**	**(120)**	**Loans and advances to customers**
Total	**41,563**	**–**	**–**	**(120)**	

	31 December 2021				
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items		Line items in the statement of financial position
	Assets	Liabilities	Assets	Liabilities	
Bonds	51,356	–	–	–	Other debt instrument investments at fair value through other comprehensive income
Loans	2,551	–	52	–	Loans and advances to customers
Total	53,907	–	52	–	

(2) Cash Flow Hedges

The Group uses interest rate swaps to hedge against exposures to cash flow variability primarily from interest rate risks of debt security issued.

For the six months ended 30 June 2022, no cash flow hedge had occurred. The Group's cash flow hedge that existed on 30 June 2021 had all expired in September 2021 (six months ended 30 June 2021: net gain of RMB18 million was recognized in other comprehensive income and there exists no ineffective portion of cash flow hedge).

(Amounts in millions of Renminbi, unless otherwise stated)

20 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	30 June 2022	31 December 2021
Analyzed by collateral type:		
Debt securities	**1,046,995**	780,571
Bills	**62,488**	59,378
Subtotal	**1,109,483**	839,949
Accrued interest	**232**	597
Allowance for impairment losses	**(3,075)**	(2,909)
Financial assets held under resale agreements, net	**1,106,640**	837,637

The collateral received in connection with financial assets held under resale agreements is disclosed in Note 45 Contingent Liabilities and Commitments — Collateral.

21 LOANS AND ADVANCES TO CUSTOMERS

21.1 Analyzed by measurement basis

	Notes	30 June 2022	31 December 2021
Measured at amortized cost	(1)	**17,310,039**	15,951,755
Measured at fair value through other comprehensive income	(2)	**726,133**	502,748
Total		**18,036,172**	16,454,503

(1) Measured at amortized cost:

	30 June 2022	*31 December 2021*
Corporate loans and advances		
Loans and advances	***10,539,909***	*9,496,436*
Personal loans and advances	***7,504,281***	*7,136,568*
Subtotal	***18,044,190***	*16,633,004*
Accrued interest	***43,229***	*39,321*
Allowance for impairment losses	***(777,380)***	*(720,570)*
Carrying amount of loans and advances to customers measured at amortized cost	***17,310,039***	*15,951,755*

(Amounts in millions of Renminbi, unless otherwise stated)

21 LOANS AND ADVANCES TO CUSTOMERS (Continued)

21.1 Analyzed by measurement basis (Continued)

(2) Measured at fair value through other comprehensive income:

	30 June 2022	31 December 2021
Corporate loans and advances		
Loans and advances	***119,012***	*78,419*
Discounted bills	***607,121***	*424,329*
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	***726,133***	*502,748*

21.2 Analyzed by assessment method of ECL

	30 June 2022			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
Gross loans and advances measured at amortized cost	**17,530,981**	**291,983**	**264,455**	**18,087,419**
Allowance for impairment losses	**(553,206)**	**(62,325)**	**(161,849)**	**(777,380)**
Carrying amount of loans and advances to customers measured at amortized cost	**16,977,775**	**229,658**	**102,606**	**17,310,039**
Loans and advances measured at fair value through other comprehensive income	**726,002**	**131**	**–**	**726,133**
Allowance for impairment losses of loans and advances to customers measured at fair value through other comprehensive income	**(28,946)**	**(25)**	**–**	**(28,971)**

(Amounts in millions of Renminbi, unless otherwise stated)

21 LOANS AND ADVANCES TO CUSTOMERS (Continued)

21.2 Analyzed by assessment method of ECL (Continued)

	31 December 2021			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
Gross loans and advances measured at amortized cost	16,157,097	269,446	245,782	16,672,325
Allowance for impairment losses	(500,117)	(57,494)	(162,959)	(720,570)
Carrying amount of loans and advances to customers measured at amortized cost	15,656,980	211,952	82,823	15,951,755
Loans and advances measured at fair value through other comprehensive income	502,701	47	–	502,748
Allowance for impairment losses of loans and advances to customers measured at fair value through other comprehensive income	(16,108)	(9)	–	(16,117)

The expected credit loss ("ECL") for corporate loans and advances in stage I and stage II, as well as personal loans and advances, were measured in accordance with the risk parameters modelling method. The ECL for corporate loans and advances in Stage III were calculated using the discounted cash flow method. For details, see Note 47.1 Credit Risk.

21.3 Analyzed by movements in loss allowance

The movements of loss allowance is mainly affected by:

— Transfers between stages due to loans and advances to customers experiencing significant increases (or decreases) in credit risk or becoming credit-impaired, and the corresponding transfer of the measurement basis of the loss allowance between 12 months and the entire lifetime ECL;

— Allowance for new loans and advances to customers recognized;

— Remeasurement includes the impact of changes in model assumptions, updates of model parameters, changes in probability of default and loss given default; changes in ECL due to transfer of loans and advances to customers between stages; changes in ECL due to unwinding of discount over time; changes in foreign exchange translations for assets denominated in foreign currencies and other movements;

— The reversal of allowances caused by repayment, transfer out and write-offs of loans and advances to customers.

(Amounts in millions of Renminbi, unless otherwise stated)

21 LOANS AND ADVANCES TO CUSTOMERS (Continued)

21.3 Analyzed by movements in loss allowance (Continued)

The following table shows the impact of above factors on the allowance for impairment losses:

	Six months ended 30 June 2022			
	Stage I	Stage II	Stage III	
Corporate loans and advances	12m ECL	Lifetime ECL		Total
1 January 2022	352,237	50,260	140,884	543,381
Transfer:				
Stage I to stage II	(4,495)	4,495	–	–
Stage II to stage III	–	(12,322)	12,322	–
Stage II to stage I	2,290	(2,290)	–	–
Stage III to stage II	–	1,934	(1,934)	–
Originated or purchased financial assets	92,864	–	–	92,864
Remeasurement	(2,396)	17,002	10,881	25,487
Repayment or transfer out	(41,503)	(4,998)	(8,749)	(55,250)
Write-offs	–	–	(16,356)	(16,356)
30 June 2022	398,997	54,081	137,048	590,126

	Six months ended 30 June 2022			
	Stage I	Stage II	Stage III	
Personal loans and advances	12m ECL	Lifetime ECL		Total
1 January 2022	163,988	7,243	22,075	193,306
Transfer:				
Stage I to stage II	(1,721)	1,721	–	–
Stage II to stage III	–	(3,649)	3,649	–
Stage II to stage I	2,426	(2,426)	–	–
Stage III to stage II	–	1,107	(1,107)	–
Originated or purchased financial assets	45,726	–	–	45,726
Remeasurement	6,625	5,954	7,875	20,454
Repayment or transfer out	(33,889)	(1,681)	(639)	(36,209)
Write-offs	–	–	(7,052)	(7,052)
30 June 2022	183,155	8,269	24,801	216,225

(Amounts in millions of Renminbi, unless otherwise stated)

21 LOANS AND ADVANCES TO CUSTOMERS (Continued)

21.3 Analyzed by movements in loss allowance (Continued)

The following table shows the impact of above factors on the allowance for impairment losses (Continued):

	Year ended 31 December 2021			
	Stage I	Stage II	Stage III	
Corporate loans and advances	12m ECL	Lifetime ECL		Total
1 January 2021	282,549	53,699	135,634	471,882
Transfer:				
Stage I to stage II	(6,338)	6,338	–	–
Stage II to stage III	–	(21,124)	21,124	–
Stage II to stage I	2,448	(2,448)	–	–
Stage III to stage II	–	1,151	(1,151)	–
Originated or purchased financial assets	115,643	–	–	115,643
Remeasurement	19,839	29,179	50,760	99,778
Repayment or transfer out	(61,904)	(16,535)	(19,730)	(98,169)
Write-offs	–	–	(45,753)	(45,753)
31 December 2021	352,237	50,260	140,884	543,381

	Year ended 31 December 2021			
	Stage I	Stage II	Stage III	
Personal loans and advances	12m ECL	Lifetime ECL		Total
1 January 2021	128,414	7,003	23,907	159,324
Transfer:				
Stage I to stage II	(1,899)	1,899	–	–
Stage II to stage III	–	(4,141)	4,141	–
Stage II to stage I	2,320	(2,320)	–	–
Stage III to stage II	–	1,269	(1,269)	–
Originated or purchased financial assets	69,982	–	–	69,982
Remeasurement	13,434	6,830	11,106	31,370
Repayment or transfer out	(48,263)	(3,297)	(2,311)	(53,871)
Write-offs	–	–	(13,499)	(13,499)
31 December 2021	163,988	7,243	22,075	193,306

(Amounts in millions of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS

	Notes	30 June 2022	31 December 2021
Financial assets at fair value through profit or loss	22.1	**459,865**	460,241
Debt instrument investments at amortized cost	22.2	**6,938,657**	6,372,522
Other debt instrument and other equity investments at fair value through other comprehensive income	22.3	**1,567,433**	1,397,280
Total		**8,965,955**	8,230,043

22.1 Financial assets at fair value through profit or loss

	Notes	30 June 2022	31 December 2021
Financial assets held for trading	(1)	**149,154**	159,382
Financial assets designated at fair value through profit or loss	(2)	**1,235**	2,313
Other financial assets at fair value through profit or loss	(3)	**309,476**	298,546
Total		**459,865**	460,241
Analyzed as:			
Listed in Hong Kong		**4,657**	5,409
Listed outside Hong Kong	(i)	**304,832**	306,454
Unlisted		**150,376**	148,378
Total		**459,865**	460,241

(i) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(1) Financial assets held for trading

	30 June 2022	31 December 2021
Debt securities issued by:		
Governments	**12,495**	8,925
Public sector and quasi-governments	**54,705**	25,144
Financial institutions	**22,960**	68,800
Corporates	**29,401**	25,268
Subtotal of debt securities	**119,561**	128,137
Precious metal contracts	**18,735**	21,389
Equity	**6,381**	5,279
Fund and others	**4,477**	4,577
Total	**149,154**	159,382

(Amounts in millions of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS (Continued)

22.1 Financial assets at fair value through profit or loss (Continued)

(2) Financial assets designated at fair value through profit or loss

	30 June 2022	31 December 2021
Debt securities issued by:		
Financial institutions	**615**	1,009
Corporates	**620**	1,304
Total	**1,235**	2,313

(3) Other financial assets at fair value through profit or loss (ii)

	30 June 2022	31 December 2021
Debt securities issued by:		
Public sector and quasi-governments	**23,062**	22,636
Financial institutions	**138,117**	131,578
Corporates	**948**	645
Subtotal of debt securities	**162,127**	154,859
Equity	**98,870**	104,676
Fund and others	**48,479**	39,011
Total	**309,476**	298,546

(ii) Other financial assets at fair value through profit or loss refer to financial assets that do not qualify for measurement at amortized cost nor fair value through other comprehensive income and are not held for trading, including bond investments, equity interests, funds, trust plans and asset management products of the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS (Continued)

22.2 Debt instrument investments at amortized cost

	Notes	30 June 2022	31 December 2021
Debt securities issued by:			
Governments		**4,620,255**	4,117,564
Public sector and quasi-governments		**1,588,416**	1,506,965
Financial institutions		**146,495**	145,826
Corporates		**79,782**	100,576
Subtotal of debt securities		**6,434,948**	5,870,931
Receivable from the MOF	(i)	**290,891**	290,891
Special government bond	(ii)	**93,339**	93,340
Others	(iii)	**13,069**	13,463
Subtotal		**6,832,247**	6,268,625
Accrued interest		**127,163**	122,924
Allowance for impairment losses		**(20,753)**	(19,027)
Debt instrument investments at amortized cost, net		**6,938,657**	6,372,522
Analyzed as:			
Listed in Hong Kong		**26,127**	19,994
Listed outside Hong Kong	(iv)	**6,511,333**	5,882,053
Unlisted		**401,197**	470,475
Total		**6,938,657**	6,372,522

(i) The Group received a notice from the MOF in January 2020, clarifying that from 1 January 2020, the interest rate of the unpaid payments will be verified year by year based on the rate of return of the five-year treasury bond of the prior year.

(ii) Special government bond refers to the non-transferable bond issued by the MOF in 1998 in the aggregated principal amount of RMB93.3 billion for capital replenishment. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum, starting from 1 December 2008.

(iii) Other debt instrument investments at amortized cost are primarily related to investment in unconsolidated structured entities held by the Group (Note 44(2)).

(iv) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS (Continued)

22.2 Debt instrument investments at amortized cost (Continued)

(1) Analyzed by assessment method of ECL

	30 June 2022			
	Stage I	**Stage II**	**Stage III**	
	12m ECL	**Lifetime ECL**		**Total**
Gross debt instrument investments at amortized cost	**6,957,778**	**337**	**1,295**	**6,959,410**
Allowance for impairment losses	**(19,478)**	**–**	**(1,275)**	**(20,753)**
Debt instrument investments at amortized cost, net	**6,938,300**	**337**	**20**	**6,938,657**

	31 December 2021			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
Gross debt instrument investments at amortized cost	6,389,720	548	1,281	6,391,549
Allowance for impairment losses	(17,764)	–	(1,263)	(19,027)
Debt instrument investments at amortized cost, net	6,371,956	548	18	6,372,522

Debt instrument investments at amortized cost in stage II and stage III mainly included corporate bond and other debt instrument investments of the Group.

(2) Analyzed by movements in loss allowance (v)

	Six months ended 30 June 2022			
	Stage I	**Stage II**	**Stage III**	
	12m ECL	**Lifetime ECL**		**Total**
1 January 2022	**17,764**	**–**	**1,263**	**19,027**
Originated or purchased financial assets	**2,387**	**–**	**–**	**2,387**
Remeasurement	**1,023**	**–**	**12**	**1,035**
Maturities or transfer out	**(1,696)**	**–**	**–**	**(1,696)**
30 June 2022	**19,478**	**–**	**1,275**	**20,753**

(Amounts in millions of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS (Continued)

22.2 Debt instrument investments at amortized cost (Continued)

(2) *Analyzed by movements in loss allowance (v) (Continued)*

	Year ended 31 December 2021			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
1 January 2021	14,850	190	1,064	16,104
Transfer:				
Stage I transfer to stage II	(1)	1	–	–
Stage I transfer to stage III	(1)	–	1	–
Stage II transfer to stage III	–	(7)	7	–
Stage II transfer to stage I	30	(30)	–	–
Originated or purchased financial assets	3,996	–	–	3,996
Remeasurement	586	(1)	191	776
Maturities or transfer out	(1,696)	(153)	–	(1,849)
31 December 2021	17,764	–	1,263	19,027

(v) *As at 30 June 2022, the increases of the Group's loss allowance of debt instrument investments at amortized cost were mainly due to the increase of debt instrument investments and the remeasurement of existing debt instrument investments during the period.*

22.3 Other debt instrument and other equity investments at fair value through other comprehensive income

	30 June 2022				
	Notes	**Amortized cost of debt instruments/ cost of equity instruments**	**Fair value**	**Cumulative amount of change in fair value that is accrued to other comprehensive income**	**Cumulative amount of impairment**
Debt instruments	(1)	**1,553,324**	**1,562,870**	**9,546**	**(11,612)**
Equity instruments	(2)	**3,517**	**4,563**	**1,046**	**N/A**
Total		**1,556,841**	**1,567,433**	**10,592**	**(11,612)**

	31 December 2021				
	Notes	Amortized cost of debt instruments/ cost of equity instruments	Fair value	Cumulative amount of change in fair value that is accrued to other comprehensive income	Cumulative amount of impairment
Debt instruments	(1)	1,373,040	1,392,691	19,651	(10,761)
Equity instruments	(2)	3,480	4,589	1,109	N/A
Total		1,376,520	1,397,280	20,760	(10,761)

(Amounts in millions of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS (Continued)

22.3 Other debt instrument and other equity investments at fair value through other comprehensive income (Continued)

(1) Debt instruments

(a) Analyzed by measurement basis

	Note	**30 June 2022**	31 December 2021
Debt securities issued by:			
Governments		**766,309**	649,753
Public sector and quasi-governments		**235,082**	241,828
Financial institutions		**428,096**	364,339
Corporates		**102,407**	105,803
Subtotal of debt instruments		**1,531,894**	1,361,723
Others	(i)	**14,827**	16,861
Subtotal		**1,546,721**	1,378,584
Accrued interest		**16,149**	14,107
Total		**1,562,870**	1,392,691
Analyzed as:			
Listed in Hong Kong		**121,893**	131,184
Listed outside Hong Kong		**1,359,492**	1,186,801
Unlisted		**81,485**	74,706
Total		**1,562,870**	1,392,691

(i) Others primarily include investments in unconsolidated structured entities held by the Group (Note 44(2)), such as trust investment plans and debt investment plans.

(Amounts in millions of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS (Continued)

22.3 Other debt instrument and other equity investments at fair value through other comprehensive income (Continued)

(1) Debt instruments (Continued)

(b) Analyzed by assessment method of ECL

	30 June 2022			
	Stage I 12m ECL	**Stage II Lifetime ECL**	**Stage III Lifetime ECL**	**Total**
Carrying amount of other debt instrument investments at fair value through other comprehensive income	**1,561,618**	**503**	**749**	**1,562,870**
Allowance for impairment losses	**(11,276)**	**(19)**	**(317)**	**(11,612)**

	31 December 2021			
	Stage I 12m ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
Carrying amount of other debt instrument investments at fair value through other comprehensive income	1,390,789	1,870	32	1,392,691
Allowance for impairment losses	(10,457)	(189)	(115)	(10,761)

Other debt instrument investments at fair value through other comprehensive income in stage II and stage III mainly included corporate bond and financial institutions bond investments of the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS (Continued)

22.3 Other debt instrument and other equity investments at fair value through other comprehensive income *(Continued)*

(1) ***Debt instruments*** *(Continued)*

(c) Analyzed by movements in loss allowance (ii)

	Six months ended 30 June 2022			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
1 January 2022	**10,457**	**189**	**115**	**10,761**
Transfer:				
Stage I transfer to stage II	**(5)**	**5**	**–**	**–**
Stage I transfer to stage III	**(189)**	**–**	**189**	**–**
Stage II transfer to stage I	**117**	**(117)**	**–**	**–**
Originated or purchased financial assets	**3,238**	**–**	**–**	**3,238**
Remeasurement	**931**	**2**	**13**	**946**
Maturities or transfer out	**(3,273)**	**(60)**	**–**	**(3,333)**
30 June 2022	**11,276**	**19**	**317**	**11,612**

	Year ended 31 December 2021			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
1 January 2021	9,536	432	106	10,074
Transfer:				
Stage I transfer to stage II	(188)	188	–	–
Stage II transfer to stage I	307	(307)	–	–
Originated or purchased financial assets	4,809	–	–	4,809
Remeasurement	(50)	2	9	(39)
Maturities or transfer out	(3,957)	(126)	–	(4,083)
31 December 2021	10,457	189	115	10,761

(ii) As at 30 June 2022, the increases of the Group's loss allowance of other debt instrument investments at fair value through other comprehensive income were mainly due to the increase of debt instrument investments and the remeasurement of existing debt instrument investments during the period.

(2) ***Equity instruments***

	30 June 2022	31 December 2021
Financial institutions	**4,421**	4,448
Other enterprises	**142**	141
Total	**4,563**	4,589

(Amounts in millions of Renminbi, unless otherwise stated)

23 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	30 June 2022	31 December 2021
Investment in associates	4,758	3,658
Investment in joint ventures	4,022	4,728
Subtotal	8,780	8,386
Allowance for impairment losses		
— investment in associates	(89)	(89)
Carrying amount	8,691	8,297

The detail information of the investment in associates and joint ventures was disclosed in Note 5 Investment in Subsidiaries, Associates, Joint Ventures and Structured Entities.

24 PROPERTY AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Construction in progress	Total
Cost:					
1 January 2022	189,309	65,906	16,398	9,516	281,129
Additions	1,549	1,337	637	1,798	5,321
Transfers in/(out)	1,179	439	–	(1,618)	–
Other movements	(2,516)	(2,090)	(321)	(63)	(4,990)
30 June 2022	189,521	65,592	16,714	9,633	281,460
Accumulated depreciation:					
1 January 2022	(77,605)	(45,724)	(4,110)	–	(127,439)
Charge for the period	(3,356)	(2,994)	(387)	–	(6,737)
Other movements	603	1,811	8	–	2,422
30 June 2022	(80,358)	(46,907)	(4,489)	–	(131,754)
Allowance for impairment losses:					
1 January 2022	(270)	(6)	(81)	(34)	(391)
Impairment loss	(2)	–	–	–	(2)
Other movements	7	–	(5)	–	2
30 June 2022	(265)	(6)	(86)	(34)	(391)
Carrying value:					
1 January 2022	111,434	20,176	12,207	9,482	153,299
30 June 2022	108,898	18,679	12,139	9,599	149,315

(Amounts in millions of Renminbi, unless otherwise stated)

24 PROPERTY AND EQUIPMENT (Continued)

	Buildings	Machinery and equipment	Motor vehicles	Construction in progress	Total
Cost:					
1 January 2021	185,794	66,118	14,721	7,349	273,982
Additions	4,820	6,161	1,864	7,443	20,288
Transfers in/(out)	4,482	592	194	(5,268)	–
Other movements	(5,787)	(6,965)	(381)	(8)	(13,141)
31 December 2021	189,309	65,906	16,398	9,516	281,129
Accumulated depreciation:					
1 January 2021	(72,476)	(46,282)	(3,718)	–	(122,476)
Charge for the year	(6,801)	(5,951)	(771)	–	(13,523)
Other movements	1,672	6,509	379	–	8,560
31 December 2021	(77,605)	(45,724)	(4,110)	–	(127,439)
Allowance for impairment losses:					
1 January 2021	(262)	(9)	(47)	(34)	(352)
Impairment loss	(8)	–	(36)	–	(44)
Other movements	–	3	2	–	5
31 December 2021	(270)	(6)	(81)	(34)	(391)
Carrying value:					
1 January 2021	113,056	19,827	10,956	7,315	151,154
31 December 2021	111,434	20,176	12,207	9,482	153,299

According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, the legal title of properties previously held by the Predecessor Entity are to be transferred to the Bank. As at 30 June 2022, the registration transfer process of these transferred properties and other certain properties have not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those assets or adversely affect the Bank's operation.

25 DEFERRED TAXATION

For the purpose of presentation in the condensed consolidated interim statement of financial position, certain deferred tax assets and liabilities have been offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is the analysis of the deferred tax balances:

	30 June 2022	31 December 2021
Deferred tax assets	**148,034**	143,027
Deferred tax liabilities	**(532)**	(655)
Net	**147,502**	142,372

(Amounts in millions of Renminbi, unless otherwise stated)

25 DEFERRED TAXATION (Continued)

(1) The following are the movements and major deferred tax assets and liabilities recognized:

	Allowance for impairment losses	Accrued but unpaid staff cost	Early retirement benefits	Provision	Fair value changes of financial instruments	Others	Total
1 January 2022	**136,059**	**11,844**	**272**	**8,452**	**(14,437)**	**182**	**142,372**
Credit/(charge) to the consolidated income statement	**6,868**	**(1,232)**	**(43)**	**2,014**	**(1,769)**	**113**	**5,951**
Credit to other comprehensive income	**–**	**–**	**–**	**–**	**(821)**	**–**	**(821)**
30 June 2022	**142,927**	**10,612**	**229**	**10,466**	**(17,027)**	**295**	**147,502**

	Allowance for impairment losses	Accrued but unpaid staff cost	Early retirement benefits	Provision	Fair value changes of financial instruments	Others	Total
1 January 2021	121,944	10,426	388	10,525	(10,718)	456	133,021
Credit/(charge) to the consolidated income statement	14,115	1,418	(116)	(2,073)	(969)	(274)	12,101
Credit to other comprehensive income	–	–	–	–	(2,750)	–	(2,750)
31 December 2021	136,059	11,844	272	8,452	(14,437)	182	142,372

(2) Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	30 June 2022		31 December 2021	
	Deductible/ (taxable) temporary differences	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	**571,814**	**142,927**	544,441	136,059
Fair value changes of financial instruments	**40,032**	**10,023**	28,267	7,087
Accrued but unpaid staff cost	**42,450**	**10,612**	47,379	11,844
Provision	**41,865**	**10,466**	33,809	8,452
Early retirement benefits	**917**	**229**	1,088	272
Others	**1,151**	**295**	780	182
Subtotal	**698,229**	**174,552**	655,764	163,896
Deferred tax liabilities				
Fair value changes of financial instruments	**(108,474)**	**(27,050)**	(86,404)	(21,524)
Subtotal	**(108,474)**	**(27,050)**	(86,404)	(21,524)
Net	**589,755**	**147,502**	569,360	142,372

(Amounts in millions of Renminbi, unless otherwise stated)

26 OTHER ASSETS

	Notes	30 June 2022	31 December 2021
Accounts receivable and temporary payments		**140,058**	75,176
Land use rights	(1)	**20,278**	20,384
Right-of-use assets	(2)	**10,117**	10,191
Intangible assets		**6,286**	6,188
Long-term deferred expenses		**2,707**	2,718
Investment properties		**2,105**	2,018
Interest receivable		**1,556**	1,836
Premiums receivable, reinsurance receivable and reserves		**1,118**	659
Foreclosed assets		**890**	899
Others		**16,796**	15,567
Total		**201,911**	135,636

(1) According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, land use rights previously held by the Predecessor Entity are to be transferred to the Bank. As at 30 June 2022, the registration transfer process of certain land use rights has not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those land use rights.

(2) As at 30 June 2022, the right-of-use assets recognized by the Group mainly include buildings, and are mainly used for daily business. The depreciation expense for the six months ended 30 June 2022 was amounting to RMB1,881 million (six months ended 30 June 2021: RMB1,979 million), and the accumulated depreciation amounting to RMB9,766 million as at 30 June 2022 (31 December 2021: RMB8,903 million).

27 BORROWINGS FROM CENTRAL BANKS

	30 June 2022	31 December 2021
Borrowings from central banks	**923,820**	740,629
Accrued interest	**15,448**	6,584
Total	**939,268**	747,213

28 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2022	31 December 2021
Deposits from:		
Domestic banks	**182,511**	167,300
Other domestic financial institutions	**1,902,481**	1,401,314
Overseas banks	**4,106**	3,332
Other overseas financial institutions	**54,542**	41,446
Subtotal	**2,143,640**	1,613,392
Accrued interest	**12,597**	8,974
Total	**2,156,237**	1,622,366

(Amounts in millions of Renminbi, unless otherwise stated)

29 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2022	31 December 2021
Placements from:		
Domestic banks and other financial institutions	**223,450**	129,317
Overseas banks and other financial institutions	**125,066**	161,119
Subtotal	**348,516**	290,436
Accrued interest	**744**	669
Total	**349,260**	291,105

30 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2022	31 December 2021
Financial liabilities held for trading		
Precious metal contracts	**11,447**	15,646
Financial liabilities designated at fair value through profit or loss		
Liabilities of the controlled structured entities	**251**	214
Others	**142**	–
Subtotal	**393**	214
Total	**11,840**	15,860

For the six months ended 30 June 2022 and the year ended 31 December 2021, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss attributable to the changes in the Group's own credit risk.

31 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2022	31 December 2021
Analyzed by type of collateral:		
Debt securities	**18,448**	31,298
Bills	**2,099**	4,720
Subtotal	**20,547**	36,018
Accrued interest	**27**	15
Total	**20,574**	36,033

The collateral pledged under repurchase agreements is disclosed in Note 45 Contingent Liabilities and Commitments — Collateral.

(Amounts in millions of Renminbi, unless otherwise stated)

32 DUE TO CUSTOMERS

	Note	30 June 2022	31 December 2021
Demand deposits			
Corporate customers		**5,661,933**	5,383,210
Individual customers		**6,149,024**	5,942,411
Time deposits			
Corporate customers		**3,330,883**	2,761,506
Individual customers		**8,050,230**	7,000,805
Pledged deposits	(1)	**393,777**	339,588
Others		**210,350**	167,933
Subtotal		**23,796,197**	21,595,453
Accrued interest		**323,657**	311,674
Total		**24,119,854**	21,907,127

(1) Analyzed by activity to which pledged deposits are related to:

	30 June 2022	31 December 2021
Trade finance	**140,753**	127,012
Bank acceptances	**93,631**	66,418
Guarantee and letters of guarantee	**65,656**	75,099
Letters of credit	**40,668**	32,948
Others	**53,069**	38,111
Total	**393,777**	339,588

(2) As at 30 June 2022, due to customers measured at amortized cost of the Group amounted to RMB24,080,274 million (31 December 2021: RMB21,854,821 million), due to customers measured at fair value through profit or loss of the Group amounted to RMB39,580 million (31 December 2021: RMB52,306 million). As at 30 June 2022 and 31 December 2021, the difference between the fair value of the structured deposits designated at fair value through profit or loss issued by the Group and the contractual amount payable to the holders of these products upon maturity was not material.

33 DEBT SECURITIES ISSUED

	Notes	30 June 2022	31 December 2021
Bonds issued	(1)	**494,049**	420,813
Certificates of deposit issued	(2)	**247,165**	262,272
Other debt securities issued	(3)	**1,028,581**	816,321
Subtotal		**1,769,795**	1,499,406
Accrued Interest		**5,736**	8,251
Total		**1,775,531**	1,507,657

As at 30 June 2022 and 31 December 2021, there was no default on the principal, interest or redemption related to any debt securities issued by the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

33 DEBT SECURITIES ISSUED (Continued)

(1) Bonds issued

	Notes	30 June 2022	31 December 2021
1.25% USD fixed rate Green Bonds maturing in January 2026	(i)	**2,013**	1,913
2.00% USD fixed rate Green Bonds maturing in January 2027	(ii)	**2,013**	–
SOFR+0.55% USD float rate Green Bonds maturing in March 2023	(iii)	**201**	–
4.99% subordinated fixed rate bonds maturing in December 2027	(iv)	**50,000**	50,000
4.45% Tier-two capital fixed rate bonds maturing in October 2027	(v)	**40,000**	40,000
4.45% Tier-two capital fixed rate bonds maturing in April 2028	(vi)	**40,000**	40,000
4.28% Tier-two capital fixed rate bonds maturing in March 2029	(vii)	**50,000**	50,000
4.30%Tier-two capital fixed rate bonds maturing in April 2029	(viii)	**40,000**	40,000
3.10% Tier-two capital fixed rate bonds maturing in April 2030	(ix)	**40,000**	40,000
3.45% Tier-two capital fixed rate bonds maturing in June 2032	(x)	**40,000**	–
4.53% Tier-two capital fixed rate bonds maturing in March 2034	(xi)	**10,000**	10,000
4.63% Tier-two capital fixed rate bonds maturing in April 2034	(xii)	**20,000**	20,000
3.65% Tier-two capital fixed rate bonds maturing in June 2037	(xiii)	**20,000**	–
Medium term notes issued	(xiv)	**69,986**	56,305
1.99% fixed rate financial bonds maturing in April 2023	(xv)	**20,000**	20,000
3.38% fixed rate financial bonds maturing in April 2024	(xvi)	**20,000**	20,000
3.68% CNY fixed rate Green Bonds maturing in June 2022	(xvii)	**–**	2,770
3.90% fixed rate financial bonds maturing in November 2023	(xviii)	**2,000**	2,000
3.06% fixed rate financial bonds maturing in August 2024	(xix)	**2,500**	2,500
3.30% fixed rate financial bonds maturing in September 2022	(xx)	**3,870**	3,870
2.68% fixed rate financial bonds maturing in March 2023	(xxi)	**4,000**	4,000
3.40% fixed rate financial bonds maturing in September 2024	(xxii)	**2,000**	2,000
2.75% fixed rate financial bonds maturing in March 2025	(xxiii)	**6,000**	6,000
3.80% fixed rate financial bonds maturing in June 2025	(xxiv)	**500**	500
4.10% fixed rate financial bonds maturing in April 2026	(xxv)	**1,100**	1,100
3.80% fixed rate financial bonds maturing in June 2026	(xxvi)	**3,000**	3,000
5.55% fixed rate capital replenishment bonds maturing in March 2028	(xxvii)	**3,500**	3,500
3.60% fixed rate capital replenishment bonds maturing in March 2030	(xxviii)	**1,500**	1,500
Total nominal value		**494,183**	420,958
Less: Unamortized issuance cost and discounts		**(134)**	(145)
Total		**494,049**	420,813

33 DEBT SECURITIES ISSUED (Continued)

(1) Bonds issued (Continued):

Pursuant to the approval by relevant regulatory authorities, the bonds issued by the Group are set out as below:

(i) The USD green bonds issued in January 2021 have a tenor of 5 years, with a fixed coupon rate 1.25%, payable semi-annually.

(ii) The USD green bonds issued in January 2022 have a tenor of 5 years, with a fixed coupon rate 2.00%, payable semi-annually.

(iii) The USD green bonds issued in March 2022 have a tenor of 1 year, with a float coupon rate SOFR+0.55%, payable monthly.

(iv) The subordinated fixed rate bonds issued in December 2012 have a tenor of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank has an option to redeem all of the bonds at face value on 19 December 2022. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.99% per annum from 20 December 2022 onwards.

(v) The Tier-two capital bonds issued in October 2017 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 16 October 2022 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 17 October 2022 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(vi) The Tier-two capital bonds issued in April 2018 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 26 April 2023 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 27 April 2023 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(vii) The Tier-two capital bonds issued in March 2019 have a tenor of 10 years, with a fixed coupon rate of 4.28% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 18 March 2024 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.28% per annum from 19 March 2024 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(viii) The Tier-two capital bonds issued in April 2019 have a tenor of 10 years, with a fixed coupon rate of 4.30% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 10 April 2024 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.30% per annum from 11 April 2024 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(ix) The Tier-two capital bonds issued in April 2020 have a tenor of 10 years, with a fixed coupon rate of 3.10% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 5 May 2025 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 3.10% per annum from 6 May 2025 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(Amounts in millions of Renminbi, unless otherwise stated)

33 DEBT SECURITIES ISSUED (Continued)

(1) Bonds issued (Continued):

(x) The Tier-two capital bonds issued in June 2022 have a tenor of 10 years, with a fixed coupon rate of 3.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 20 June 2027 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 3.45% per annum from 21 June 2027 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(xi) The Tier-two capital bonds issued in March 2019 have a tenor of 15 years, with a fixed coupon rate of 4.53% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 18 March 2029 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.53% per annum from 19 March 2029 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(xii) The Tier-two capital bonds issued in April 2019 have a tenor of 15 years, with a fixed coupon rate of 4.63% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 10 April 2029 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.63% per annum from 11 April 2029 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(xiii) The Tier-two capital bonds issued in June 2022 have a tenor of 15 years, with a fixed coupon rate of 3.65% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 20 June 2032 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 3.65% per annum from 21 June 2032 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(xiv) The medium term notes ("MTNs") were issued by the Overseas Operations of the Group and are measured at amortized cost. The details of medium term notes issued were as follows:

	As at 30 June 2022		
	Maturity dates ranging from	***Coupon rates (%)***	***Outstanding balance***
Fixed rate RMB MTNs	***May 2023 to April 2024***	***2.60–2.90***	***2,804***
Fixed rate HKD MTNs	***October 2022 to June 2023***	***0.50–1.00***	***8,978***
Fixed rate USD MTNs	***July 2023 to March 2027***	***0.70–2.25***	***45,296***
Floating rate USD MTNs	***July 2022 to November 2023***	***3 months Libor +66 to 85 bps***	***12,078***
Fixed rate MOP MTNs	***August 2023***	***1.15***	***830***
Total			***69,986***

	As at 31 December 2021		
	Maturity dates ranging from	*Coupon rates (%)*	*Outstanding balance*
Fixed rate RMB MTNs	*May 2023 to April 2024*	*2.60–2.70*	*1,502*
Fixed rate HKD MTNs	*October 2022 to June 2023*	*0.50–1.00*	*8,583*
Fixed rate USD MTNs	*July 2023 to September 2026*	*0.70–1.65*	*34,745*
Floating rate USD MTNs	*July 2022 to November 2023*	*3 months Libor +66 to 85 bps*	*11,475*
Total			*56,305*

33 DEBT SECURITIES ISSUED (Continued)

(1) Bonds issued (Continued):

(xv) The fixed rate special financial bonds issued in April 2020 have a tenor of 3 years, with a fixed coupon rate of 1.99%, payable annually.

(xvi) The fixed rate special financial bonds issued in April 2021 have a tenor of 3 years, with a fixed coupon rate of 3.38%, payable annually.

(xvii) The CNY green bonds issued by ABC Financial Leasing Co., Ltd. in June 2019 have a tenor of 3 years, with a fixed coupon rate 3.68%, payable annually. The bonds have expired on 5 June 2022.

(xviii) The fixed rate financial bonds issued by ABC Financial Leasing Co., Ltd. in November 2020 have a tenor of 3 years, with a fixed coupon rate of 3.90%, payable annually.

(xix) The fixed rate financial bonds issued by ABC Financial Leasing Co., Ltd. in August 2021 have a tenor of 3 years, with a fixed coupon rate of 3.06%, payable annually.

(xx) The fixed rate financial bonds issued by ABC Financial Assets Investment Co., Ltd. in September 2019 have a tenor of 3 years, with a fixed coupon rate of 3.30%, payable annually.

(xxi) The fixed rate financial bonds issued by ABC Financial Assets Investment Co., Ltd. in March 2020 have a tenor of 3 years, with a fixed coupon rate of 2.68%, payable annually.

(xxii) The fixed rate financial bonds issued by ABC Financial Assets Investment Co., Ltd. in September 2019 have a tenor of 5 years, with a fixed coupon rate of 3.40%, payable annually.

(xxiii) The fixed rate financial bonds issued by ABC Financial Assets Investment Co., Ltd. in March 2020 have a tenor of 5 years, with a fixed coupon rate of 2.75%, payable annually.

(xxiv) The fixed rate financial bonds issued by ABCI Investment Suzhou Corporation Limited in June 2020 have a tenor of 5 years, with a fixed coupon rate of 3.80%, payable annually.

(xxv) The fixed rate financial bonds issued by ABCI Investment Suzhou Corporation Limited in April 2021 have a tenor of 5 years, with a fixed coupon rate of 4.10%, payable annually.

(xxvi) The fixed rate financial bonds issued by ABCI Investment Beijing Corporation Limited in June 2021 have a tenor of 5 years, with a fixed coupon rate of 3.80%, payable annually.

(xxvii) The fixed rate capital replenishment debt issued by ABC Life Insurance in March 2018 have a tenor of 10 years, with a fixed coupon rate of 5.55%, payable annually. ABC Life Insurance has an option to redeem all of the bonds at face value on 4 March 2023. If ABC Life Insurance do not exercise this option, the coupon rate of the bonds would increase to 6.55% per annum from 5 March 2023 onwards.

(xxviii) The fixed rate capital replenishment debt issued by ABC Life Insurance in March 2020 have a tenor of 10 years, with a fixed coupon rate of 3.60%, payable annually. ABC Life Insurance has an option to redeem all of the bonds at face value on 29 March 2025. If ABC Life Insurance do not exercise this option, the coupon rate of the bonds would increase to 4.60% per annum from 30 March 2025 onwards.

(2) As at 30 June 2022, the certificates of deposit were issued by the overseas institutions of the Group and were measured at amortized cost. The terms of the certificates of deposit ranged from one month to five years, with interest rates ranging from 0.00% to 4.50% per annum. (As at 31 December 2021, the terms of the certificates of deposit ranged from one month to five years, with interest rates ranging from -0.02% to 3.09% per annum.)

(Amounts in millions of Renminbi, unless otherwise stated)

33 DEBT SECURITIES ISSUED (Continued)

(3) Other debt securities issued by the Group are commercial papers and interbank certificates of deposit.

(i) As at 30 June 2022, the commercial papers were issued by the Overseas Institutions of the Group and were measured at amortized cost. The terms of the commercial papers ranged from two months to one year, with interest rates ranging from 0.00% to 3.37% per annum (As at 31 December 2021, the terms of the commercial papers ranged from two months to one year, with interest rates ranging from 0.00% to 0.45% per annum.)

(ii) As at 30 June 2022, the interbank certificates of deposit were issued by the Bank's Head Office and London Branch. The terms of the interbank certificates of deposit ranged from three months to one year, with interest rates ranging from -0.51% to 1.88% per annum (As at 31 December 2021, the terms of the interbank certificate of deposit ranged from one month to one year, with interest rates ranging from -0.51% to 0.59% per annum.)

34 OTHER LIABILITIES

	Notes	**30 June 2022**	31 December 2021
Clearing and settlement		**107,796**	153,389
Insurance liabilities		**119,542**	105,262
Staff costs payable	(1)	**54,881**	59,736
Provision	(2)	**41,865**	33,809
Income taxes payable		**27,807**	61,639
VAT and other taxes payable		**11,951**	10,571
Lease liabilities		**10,134**	10,067
Amount payable to the MOF		**1,450**	1,286
Others		**55,898**	64,684
Total		**431,324**	500,443

(1) Staff costs payable

	Notes	**30 June 2022**	31 December 2021
Short-term employee benefits	(i)	**52,771**	57,262
Defined contribution benefits	(ii)	**1,193**	1,386
Early retirement benefits	(iii)	**917**	1,088
Total		**54,881**	59,736

(Amounts in millions of Renminbi, unless otherwise stated)

34 OTHER LIABILITIES (Continued)

(1) Staff costs payable (Continued)

(i) Short-term employee benefits

		Six months ended 30 June 2022			
	Note	**1 January**	**Increase**	**Decrease**	**30 June**
Salaries, bonuses, allowance and subsidies	(a)	**42,785**	**41,896**	**(47,941)**	**36,740**
Housing funds	(a)	**137**	**4,756**	**(4,749)**	**144**
Social insurance including:	(a)	**446**	**3,076**	**(3,109)**	**413**
— Medical insurance		**418**	**2,903**	**(2,939)**	**382**
— Maternity insurance		**14**	**93**	**(92)**	**15**
— Employment injury insurance		**14**	**80**	**(78)**	**16**
Labor union fees and staff education expenses		**9,145**	**1,829**	**(659)**	**10,315**
Others		**4,749**	**3,565**	**(3,155)**	**5,159**
Total		**57,262**	**55,122**	**(59,613)**	**52,771**

		Year ended 31 December 2021			
	Note	1 January	Increase	Decrease	31 December
Salaries, bonuses, allowance and subsidies	(a)	35,010	90,052	(82,277)	42,785
Housing funds	(a)	108	9,406	(9,377)	137
Social insurance including:	(a)	385	5,895	(5,834)	446
— Medical insurance		367	5,514	(5,463)	418
— Maternity insurance		9	223	(218)	14
— Employment injury insurance		9	158	(153)	14
Labor union fees and staff education expenses		8,039	4,001	(2,895)	9,145
Others		3,838	10,982	(10,071)	4,749
Total		47,380	120,336	(110,454)	57,262

(a) Salaries, bonuses, allowance and subsidies, housing funds and social insurance are timely distributed and paid in accordance with the relevant laws and regulations and the Group's policy.

(Amounts in millions of Renminbi, unless otherwise stated)

34 OTHER LIABILITIES (Continued)

(1) Staff costs payable (Continued)

(ii) Defined contribution benefits

	Six months ended 30 June 2022			
	1 January	**Increase**	**Decrease**	**30 June**
Basic pensions	**694**	**5,598**	**(5,541)**	**751**
Unemployment insurance	**40**	**187**	**(168)**	**59**
Annuity Scheme	**652**	**3,079**	**(3,348)**	**383**
Total	**1,386**	**8,864**	**(9,057)**	**1,193**

	Year ended 31 December 2021			
	1 January	Increase	Decrease	31 December
Basic pensions	619	10,924	(10,849)	694
Unemployment insurance	40	360	(360)	40
Annuity Scheme	7,221	6,993	(13,562)	652
Total	7,880	18,277	(24,771)	1,386

The defined contribution benefits are timely distributed and paid in accordance with the relevant laws and regulations and the Group's policy. There was no forfeited contribution available to reduce the contribution payable by the Group under the above schemes.

(iii) Early retirement benefits

	Six months ended 30 June 2022			
	1 January	**Increase**	**Decrease**	**30 June**
Early retirement benefits	**1,088**	**13**	**(184)**	**917**

	Year ended 31 December 2021			
	1 January	Increase	Decrease	31 December
Early retirement benefits	1,551	15	(478)	1,088

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	30 June 2022	31 December 2021
Discount rate	**2.35%**	2.58%
Annual average medical expense growth rate	**8.00%**	8.00%
Annual subsidies growth rate	**8.00%**	8.00%
Normal retirement age		
— Male	**60**	60
— Female	**55**	55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

Any difference arising from the actual result or changes in assumptions may affect the amount of expense recognized in the consolidated interim income statement.

(Amounts in millions of Renminbi, unless otherwise stated)

34 OTHER LIABILITIES (Continued)

(2) Provision

	30 June 2022	31 December 2021
Loan commitments and financial guarantee contracts	**28,743**	20,271
Litigation provision	**5,273**	5,333
Others	**7,849**	8,205
Total	**41,865**	33,809

35 ORDINARY SHARES

	30 June 2022	
	Number of shares (millions)	**Nominal value**
Domestic listed A shares, par value RMB1.00 per share	**319,244**	**319,244**
Overseas listed H shares, par value RMB1.00 per share	**30,739**	**30,739**
Total	**349,983**	**349,983**

	31 December 2021	
	Number of shares (millions)	Nominal value
Domestic listed A shares, par value RMB1.00 per share	319,244	319,244
Overseas listed H shares, par value RMB1.00 per share	30,739	30,739
Total	349,983	349,983

(1) *A shares refer to the ordinary shares listed in Chinese mainland. They are offered and traded in RMB. H shares refer to the ordinary shares listed in Hong Kong SAR. Their par value is denominated in RMB when they were initially offered and are currently traded in HKD.*

(2) *As at 30 June 2022 and 31 December 2021, the Bank's A Shares and H Shares were not subject to lock-up restriction, except for the RMB19,960 million ordinary shares (A shares) issued through the private placement in June 2018.*

(Amounts in millions of Renminbi, unless otherwise stated)

36 OTHER EQUITY INSTRUMENTS

Financial instruments in issued		Dividend rate	Issued price (RMB yuan)	Issued number of shares (millions)	Issued nominal value (millions)	Maturity date	Conversion
Preference shares — first tranche[1]		6.00% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the period
Preference shares — second tranche[1]		5.50% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the period
Perpetual bonds	Undated tier 1 capital bonds in 2019 — first tranche[2]	4.39% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	850	85,000	No maturity date	N/A
	Undated tier 1 capital bonds in 2019 — second tranche[2]	4.20% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	350	35,000	No maturity date	N/A
	Undated tier 1 capital bonds in 2020 — first tranche[2]	3.48% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	850	85,000	No maturity date	N/A
	Undated tier 1 capital bonds in 2020 — second tranche[2]	4.50% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	350	35,000	No maturity date	N/A
	Undated tier 1 capital bonds in 2021 — first tranche[2]	3.76% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	N/A
	Undated tier 1 capital bonds in 2022 — first tranche[2]	3.49% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	500	50,000	No maturity date	N/A

(1) *The Bank was authorized to issue no more than 800 million preference shares of RMB100 each, pursuant to the approval by its ordinary equity holders and relevant regulatory authorities.*

The first tranche of 400 million preference shares was issued at par in November 2014. The carrying amount, net of direct issuance expenses, was RMB39,944 million as at 30 June 2022. The first tranche of preference shares bears a dividend rate of 6.00% per annum; dividends are non-cumulative and where payable, are paid annually, for the first five years from issuance. The dividend rate will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 2.29%. The first five-year dividend period expired on 1 November 2019. During the second dividend period beginning from 5 November 2019, the base rate and fixed premium is 3.03% and 2.29%, respectively, and the coupon rate is 5.32%. The dividend is paid annually.

36 OTHER EQUITY INSTRUMENTS (Continued)

The second tranche of 400 million preference shares was issued at par in March 2015. The carrying amount, net of direct issuance expenses, was RMB39,955 million as at 30 June 2022. The second tranche of preference shares bears a dividend rate of 5.50% per annum; dividends are non-cumulative and where payable, are paid annually, for the first five years from issuance. The dividend rate will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 2.24%. The first five-year dividend period expired on 6 March 2020. During the second dividend period beginning from 11 March 2020, the base rate and fixed premium is 2.60% and 2.24%, respectively, and the coupon rate is 4.84%. The dividend is paid annually.

There were no changes in the carrying amounts of the preference shares since issuance.

As authorized by the ordinary equity holders in the annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. The Bank shall not distribute any dividends to its ordinary equity holders before it declares such dividends to preference shareholders for the relevant period. The distribution of preference shares dividend is at the Bank's discretion and is non-cumulative. Preference shareholders are not entitled to participate in the distribution of retained earnings except for the dividends stated above.

The Bank has a redemption option when specified conditions as stipulated in the offering documents are met, subject to regulatory approval, whereas preference shareholders have no right to request the Bank to redeem the preference shares.

Upon liquidation, the claims of preference shareholders have priority over ordinary equity holders on the residual assets of the Bank, but are subordinated to those of depositors, general creditors, Tier-two Capital Instruments holders or any other subordinated debt holders with equivalent rights.

Upon occurrence of the triggering events as stipulated in paragraph 2(1) of the Guidance of the CBIRC on Amendments to Commercial Banks' Innovation on Capital Instruments (CBIRC No. 42 [2019]) and subject to regulatory approval, the first tranche of preference shares and the second tranche of preference shares shall be mandatorily converted into ordinary A shares of the Bank at the conversion price agreed, partially or entirely. The initial conversion price of the preference shares issued by the Bank was RMB2.43 per share. In June 2018, the Bank has issued 25,189 million ordinary A shares to specific investors. The conversion price of the preference shares will be adjusted where certain events occur including bonus issues, rights issue, capitalization of reserves and new issuances of ordinary shares, subject to terms and formulas provided in the offering documents, to maintain the relative interests between preference shareholders and ordinary equity holders. Upon completion of the private placement of ordinary shares by the Bank, the mandatory conversion price of the first tranche of preference shares and the second tranche of preference shares issued by the Bank will be adjusted from RMB2.43 per share to RMB2.46 per share.

These preference shares are classified as equity instruments, and presented as equity in the condensed consolidated interim statement of financial position, and are qualified as Additional Tier-one Capital Instruments in accordance with the CBIRC requirements.

The carrying amount, net of direct issuance expenses, was RMB79,899 million as at 30 June 2022 (31 December 2021: RMB79,899 million).

(2) With the approval from the annual general meeting and regulatory authorities, the Bank was permitted to issue undated additional tier 1 capital bonds ("Perpetual bonds" or the "Bonds") of an amount no more than RMB120 billion in 2019.

The Bank issued undated additional tier 1 capital bonds (first tranche) with the amount of RMB85 billion in the national interbank bond market on 16 August 2019, and the issuance was completed on 20 August 2019. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 4.39%.

The Bank issued undated additional tier 1 capital bonds (second tranche) with the amount of RMB35 billion in the national interbank bond market on 3 September 2019, and the issuance was completed on 5 September 2019. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 4.20%.

36 OTHER EQUITY INSTRUMENTS (Continued)

With the approval from the annual general meeting and regulatory authorities, the Bank was granted to issue undated additional tier 1 capital bonds ("Perpetual bonds" or the "Bonds") of an amount no more than RMB120 billion in 2020.

The Bank issued undated additional tier 1 capital bonds (first tranche) with the amount of RMB85 billion in the national interbank bond market on 8 May 2020, and the issuance was completed on 12 May 2020. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 3.48%.

The Bank issued undated additional tier 1 capital bonds (second tranche) with the amount of RMB35 billion in the national interbank bond market on 20 August 2020, and the issuance was completed on 24 August 2020. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 4.50%.

With the approval from the annual general meeting and regulatory authorities, the Bank was granted to issue undated additional tier 1 capital bonds ("Perpetual bonds" or the "Bonds") of an amount no more than RMB120 billion in 2021.

The Bank issued undated additional tier 1 capital bonds (first tranche) with the amount of RMB40 billion in the national interbank bond market on 12 November 2021, and the issuance was completed on 16 November 2021. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 3.76%.

The Bank issued undated additional tier 1 capital bonds (first tranche) with the amount of RMB50 billion in the national interbank bond market on 18 February 2022, and the issuance was completed on 22 February 2022. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 3.49%.

The duration of the Perpetual bonds is the same as the continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the Bonds in whole or in part on each distribution payment date from the fifth anniversary since the issuance date of the Bonds. Upon the occurrence of a trigger event for write-downs, with the approval of the CBIRC and without the need for the consent of the holders of the Bonds, the Bank has the right to write down all or part of the aggregate amount of the Bonds then issued and outstanding. The claims of the holders of the Bonds will be subordinated to the claims of depositors, general creditors and subordinated indebtedness that ranks senior to the Bonds; and shall rank in priority to all classes of shares held by shareholders and will rank pari passu with the claims in respect of any other additional tier 1 capital instruments of the Bank that rank pari passu with the Bonds.

The distributions on the Perpetual bonds are non-cumulative. The Bank shall have the right to cancel distributions on the Bonds in whole or in part and any such cancellation shall not constitute an event of default. The Bank may at its discretion use the proceeds from the cancelled distribution to meet other obligations as they fall due. But the Bank shall not make any distribution to ordinary shareholders until its decision to resume the distribution payments in whole to the holders of the Bonds.

The net proceeds from the issuance of the Perpetual bonds after deducting offering related expenses were used to replenish the Bank's additional tier 1 capital.

The carrying amount, net of direct issuance expenses, was RMB329,970 million as at 30 June 2022 (31 December 2021: RMB279,973 million).

(Amounts in millions of Renminbi, unless otherwise stated)

37 CAPITAL RESERVE

The capital reserve mainly represents the premium related to ordinary shares publicly issued by the Bank in 2010 and private placement of ordinary shares to the specific shareholders in 2018. Share premium was recorded in the capital reserve after deducting direct issue expenses, which consisted primarily of underwriting fees and professional fees.

38 INVESTMENT REVALUATION RESERVE

	Six months ended 30 June 2022		
	Gross carrying amount	**Tax effect**	**Net effect**
31 December 2021	**46,409**	**(11,482)**	**34,927**
Fair value changes on other debt instrument investments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	**(11,114)**	**2,631**	**(8,483)**
— Amount removed from other comprehensive income and recognized in profit or loss	**(612)**	**153**	**(459)**
Loss allowance on other debt instrument investments at fair value through other comprehensive income	**13,704**	**(3,593)**	**10,111**
Fair value changes on other equity investments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	**47**	**(13)**	**34**
30 June 2022	**48,434**	**(12,304)**	**36,130**

	Year ended 31 December 2021		
	Gross carrying amount	Tax effect	Net effect
31 December 2020	34,773	(8,786)	25,987
Fair value changes on other debt instrument investments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	9,442	(2,192)	7,250
— Amount removed from other comprehensive income and recognized in profit or loss	(1,131)	283	(848)
Loss allowance on other debt instrument investments at fair value through other comprehensive income	3,607	(902)	2,705
Fair value changes on other equity investments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	(282)	115	(167)
31 December 2021	46,409	(11,482)	34,927

(Amounts in millions of Renminbi, unless otherwise stated)

39 SURPLUS RESERVE

Under PRC Law, the Bank is required to transfer 10% of its net profit determined under the PRC GAAP to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. In addition, certain subsidiaries and overseas branches also appropriated surplus reserves in accordance with local requirements.

Subject to the approval of the ordinary equity holders, the statutory surplus reserves can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserves amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserves after such capitalization is not less than 25% of the ordinary share capital.

40 GENERAL RESERVE

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirement") issued by the MOF, effective on 1 July 2012, in addition to impairment allowance, the Bank establishes a general reserve within ordinary equity holders' equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement. The general reserve includes regulatory reserve appropriated by the Bank's overseas branches pursuant to local regulatory requirements.

Pursuant to relevant PRC regulatory requirements, some domestic subsidiaries of the Bank are required to appropriate certain amounts of their net profit as general reserves.

For the six months ended 30 June 2022, the Group transferred RMB33,771 million (six months ended 30 June 2021: RMB40,155 million) to the general reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB32,221 million (six months ended 30 June 2021: RMB39,217 million) related to the appropriation proposed for the year ended 31 December 2021 which was approved at the annual general meeting held on 29 June 2022.

41 CASH AND CASH EQUIVALENTS

For the purpose of the condensed consolidated interim statement of cash flows, cash and cash equivalents include the following balances with an original maturity of three months or less:

	30 June 2022	30 June 2021
Cash	**71,848**	75,177
Balance with central banks	**355,402**	51,748
Deposits with banks and other financial institutions	**12,638**	69,414
Placements with and loans to banks and other financial institutions	**170,628**	135,794
Financial assets held under resale agreements	**1,102,096**	841,290
Total	**1,712,612**	1,173,423

42 OPERATING SEGMENTS

Operating segments are identified on the basis of internal management reports with respect to the components of the Group that are regularly reviewed by the Board and relevant management committees, which constitute the chief operating decision makers, for the purposes of allocating resources to segments and assessing their performance. The Group's chief operating decision makers review three different sets of financial information based on (i) geographical locations, (ii) business activities and (iii) County Area and Urban Area banking business.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results are based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the interim financial information and those used in preparing the operating segment information.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Geographical operating segments

The details of the geographical operating segments are as follows:

Head Office	
Yangtze River Delta:	Shanghai, Jiangsu, Zhejiang, Ningbo
Pearl River Delta:	Guangdong, Shenzhen, Fujian, Xiamen
Bohai Rim:	Beijing, Tianjin, Hebei, Shandong, Qingdao
Central China:	Shanxi, Hubei, Henan, Hunan, Jiangxi, Hainan, Anhui
Western China:	Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang (including Xinjiang Production and Construction Corps Branch), Tibet, Inner Mongolia, Guangxi
Northeastern China:	Liaoning, Heilongjiang, Jilin, Dalian
Overseas and Others:	Subsidiaries and overseas branches

(Amounts in millions of Renminbi, unless otherwise stated)

42 OPERATING SEGMENTS (Continued)

Geographical operating segments (Continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
For the six months ended 30 June 2022										
External interest income	164,656	92,298	63,366	52,365	61,964	85,672	11,990	10,462	–	542,773
External interest expense	(35,139)	(52,876)	(28,779)	(39,925)	(33,319)	(36,952)	(10,978)	(4,586)	–	(242,554)
Inter-segment net interest (expense)/income	(151,484)	35,237	18,004	35,887	27,457	25,099	10,881	(1,081)	–	–
Net interest income	(21,967)	74,659	52,591	48,327	56,102	73,819	11,893	4,795	–	300,219
Fee and commission income	19,513	8,888	7,017	5,818	5,632	6,946	1,060	1,353	–	56,227
Fee and commission expense	(1,369)	(1,334)	(944)	(749)	(997)	(1,017)	(208)	(120)	–	(6,738)
Net fee and commission income	18,144	7,554	6,073	5,069	4,635	5,929	852	1,233	–	49,489
Net trading gain/(loss)	6,312	(110)	(2)	17	26	43	9	1,467	–	7,762
Net gain/(loss) on financial investments	3,232	(153)	(151)	(186)	(55)	(1,517)	(64)	2,082	–	3,188
Net gain on derecognition of financial assets measured at amortized cost	101	–	–	–	–	–	–	–	–	101
Other operating (expense)/income	(1,990)	848	584	324	561	524	89	25,960	–	26,900
Operating income	3,832	82,798	59,095	53,551	61,269	78,798	12,779	35,537	–	387,659
Operating expenses	(8,889)	(16,914)	(12,303)	(13,342)	(16,810)	(22,937)	(5,939)	(28,837)	–	(125,971)
Credit impairment losses	(7,297)	(20,182)	(21,077)	(17,583)	(14,165)	(21,638)	(3,103)	(485)	–	(105,530)
Impairment losses on other assets	–	–	–	1	–	(14)	(4)	–	–	(17)
Operating (loss)/profit	(12,354)	45,702	25,715	22,627	30,294	34,209	3,733	6,215	–	156,141
Share of results of associates and joint ventures	33	–	–	–	–	–	–	97	–	130
(Loss)/profit before tax	(12,321)	45,702	25,715	22,627	30,294	34,209	3,733	6,312	–	156,271
Income tax expense										(27,321)
Profit for the period										128,950
Depreciation and amortization included in operating expenses	918	1,581	1,306	1,528	1,589	2,119	584	281	–	9,906
Capital expenditure	1,037	556	405	1,875	1,176	1,376	96	577	–	7,098
As at 30 June 2022										
Segment assets	5,914,198	7,075,605	4,278,597	5,626,063	4,742,014	6,122,860	1,407,853	1,223,011	(4,111,815)	32,278,386
Including: Investment in associates and joint ventures	1,106	–	–	–	–	–	–	7,585	–	8,691
Unallocated assets										148,034
Total assets										32,426,420
Including: Non-current assets (1)	15,421	29,436	19,499	29,591	27,653	41,374	10,242	27,664	–	200,880
Segment liabilities	(3,508,380)	(7,137,904)	(4,233,610)	(5,648,202)	(4,748,194)	(6,124,973)	(1,415,221)	(1,167,199)	4,111,815	(29,871,868)
Unallocated liabilities										(28,339)
Total liabilities										(29,900,207)
Loan commitments and financial guarantee contracts	16,246	591,332	375,705	412,866	322,716	323,535	76,841	91,241	–	2,210,482

(1) *Non-current assets include property and equipment, investment properties, right-of-use assets, land use rights, intangible assets and other long-term assets.*

(Amounts in millions of Renminbi, unless otherwise stated)

42 OPERATING SEGMENTS (Continued)

Geographical operating segments (Continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
For the six months ended 30 June 2021										
External interest income	156,662	79,972	56,405	47,128	54,140	77,557	11,557	10,050	–	493,471
External interest expense	(30,527)	(45,641)	(24,235)	(34,625)	(28,596)	(32,325)	(9,930)	(4,235)	–	(210,114)
Inter-segment net interest (expense)/income	(115,428)	26,814	10,431	28,654	21,583	19,602	9,022	(678)	–	–
Net interest income	10,707	61,145	42,601	41,157	47,127	64,834	10,649	5,137	–	283,357
Fee and commission income	20,325	9,326	7,359	5,737	5,580	7,379	1,225	556	–	57,487
Fee and commission expense	(1,735)	(1,682)	(1,310)	(1,068)	(1,414)	(1,450)	(332)	(346)	–	(9,337)
Net fee and commission income	18,590	7,644	6,049	4,669	4,166	5,929	893	210	–	48,150
Net trading gain	4,429	303	82	63	82	36	18	3,346	–	8,359
Net gain/(loss) on financial investments	5,052	(3,337)	(750)	(263)	(562)	(170)	(162)	1,624	–	1,432
Net gain on derecognition of financial assets measured at amortized cost	–	–	–	–	–	–	–	1	–	1
Other operating income	845	537	316	213	293	828	60	21,863	–	24,955
Operating income	39,623	66,292	48,298	45,839	51,106	71,457	11,458	32,181	–	366,254
Operating expenses	(8,228)	(15,651)	(11,603)	(12,899)	(15,515)	(21,478)	(5,755)	(25,562)	–	(116,691)
Credit impairment losses	(760)	(22,075)	(13,251)	(16,958)	(23,766)	(17,336)	(1,957)	(35)	–	(96,138)
Impairment losses on other assets	–	–	–	–	–	4	(7)	–	–	(3)
Operating profit	30,635	28,566	23,444	15,982	11,825	32,647	3,739	6,584	–	153,422
Share of results of associates and joint ventures	26	–	–	–	–	–	–	90	–	116
Profit before tax	30,661	28,566	23,444	15,982	11,825	32,647	3,739	6,674	–	153,538
Income tax expense										(30,705)
Profit for the period										122,833
Depreciation and amortization included in operating expenses	817	1,595	1,244	1,538	1,534	2,079	588	268	–	9,663
Capital expenditure	1,127	691	524	1,721	1,167	1,376	118	1,212	–	7,936
As at 31 December 2021										
Segment assets	5,349,436	6,245,511	3,777,921	5,144,974	4,261,718	5,616,038	1,292,922	1,158,228	(3,920,620)	28,926,128
Including: Investment in associates and joint ventures	1,072	–	–	–	–	–	–	7,225	–	8,297
Unallocated assets										143,027
Total assets										29,069,155
Including: Non-current assets (1)	15,399	30,401	20,108	30,150	28,146	42,446	10,731	27,094	–	204,475
Segment liabilities	(2,878,758)	(6,304,624)	(3,787,707)	(5,185,277)	(4,293,433)	(5,647,159)	(1,303,874)	(1,105,290)	3,920,620	(26,585,502)
Unallocated liabilities										(62,294)
Total liabilities										(26,647,796)
Loan commitments and financial guarantee contracts	12,035	537,337	366,666	389,817	308,368	320,502	75,593	77,987	–	2,088,305

(1) *Non-current assets include property and equipment, investment properties, right-of-use assets, land use rights, intangible assets and other long-term assets.*

42 OPERATING SEGMENTS (Continued)

Business operating segments

The details of the business operating segments are as follows:

Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products, corporate wealth management services and other types of corporate intermediary services.

Personal banking

The personal banking segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

Treasury operations

The Group's treasury operations conduct money market and repurchase transactions, debt instrument investments, precious metal transactions and derivative transactions for its own accounts or on behalf of customers.

Others

Others comprise components of the Group that are not attributable to any of the above segments, along with certain assets, liabilities, income or expenses of the Head Office that could not be allocated on a reasonable basis.

(Amounts in millions of Renminbi, unless otherwise stated)

42 OPERATING SEGMENTS (Continued)

Business operating segments (Continued)

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the six months ended 30 June 2022					
External interest income	203,718	173,044	162,162	3,849	542,773
External interest expense	(73,094)	(116,579)	(51,388)	(1,493)	(242,554)
Inter-segment net interest (expense)/income	(14,262)	106,896	(92,634)	–	–
Net interest income	116,362	163,361	18,140	2,356	300,219
Fee and commission income	34,316	18,824	670	2,417	56,227
Fee and commission expense	(3,738)	(2,838)	(24)	(138)	(6,738)
Net fee and commission income	30,578	15,986	646	2,279	49,489
Net trading gain	–	–	7,152	610	7,762
Net (loss)/gain on financial investments	(412)	(134)	1,712	2,022	3,188
Net gain on derecognition of financial assets measured at amortized cost	–	–	101	–	101
Other operating income/(expense)	406	368	(789)	26,915	26,900
Operating income	146,934	179,581	26,962	34,182	387,659
Operating expenses	(35,686)	(50,208)	(11,343)	(28,734)	(125,971)
Credit impairment losses	(62,794)	(38,084)	(4,556)	(96)	(105,530)
Impairment losses on other assets	(17)	–	–	–	(17)
Operating profit	48,437	91,289	11,063	5,352	156,141
Share of results of associates and joint ventures	–	–	–	130	130
Profit before tax	48,437	91,289	11,063	5,482	156,271
Income tax expense					(27,321)
Profit for the period					128,950
Depreciation and amortization included in operating expenses	2,727	5,102	1,823	254	9,906
Capital expenditure	1,577	3,468	1,451	602	7,098
As at 30 June 2022					
Segment assets	10,805,169	7,459,027	13,602,366	411,824	32,278,386
Including: Investment in associates and joint ventures	–	–	–	8,691	8,691
Unallocated assets					148,034
Total assets					32,426,420
Segment liabilities	(9,763,539)	(14,596,030)	(5,110,469)	(401,830)	(29,871,868)
Unallocated liabilities					(28,339)
Total liabilities					(29,900,207)
Loan commitments and financial guarantee contracts	1,326,451	884,031	–	–	2,210,482

(Amounts in millions of Renminbi, unless otherwise stated)

42 OPERATING SEGMENTS (Continued)

Business operating segments (Continued)

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the six months ended 30 June 2021					
External interest income	194,471	142,988	152,071	3,941	493,471
External interest expense	(68,231)	(109,631)	(30,491)	(1,761)	(210,114)
Inter-segment net interest (expense)/income	(3,079)	89,869	(86,790)	–	–
Net interest income	123,161	123,226	34,790	2,180	283,357
Fee and commission income	36,014	19,135	869	1,469	57,487
Fee and commission expense	(5,888)	(3,281)	(3)	(165)	(9,337)
Net fee and commission income	30,126	15,854	866	1,304	48,150
Net trading gain	–	–	5,753	2,606	8,359
Net (loss)/gain on financial investments	(4,442)	(1,503)	5,121	2,256	1,432
Net gain on derecognition of financial assets measured at amortized cost	–	–	1	–	1
Other operating income	709	649	113	23,484	24,955
Operating income	149,554	138,226	46,644	31,830	366,254
Operating expenses	(33,001)	(45,840)	(12,802)	(25,048)	(116,691)
Credit impairment losses	(60,229)	(35,138)	(704)	(67)	(96,138)
Impairment losses on other assets	(3)	–	–	–	(3)
Operating profit	56,321	57,248	33,138	6,715	153,422
Share of results of associates and joint ventures	–	–	–	116	116
Profit before tax	56,321	57,248	33,138	6,831	153,538
Income tax expense					(30,705)
Profit for the period					122,833
Depreciation and amortization included in operating expenses	2,223	5,416	1,801	223	9,663
Capital expenditure	1,281	3,792	1,417	1,446	7,936
As at 31 December 2021					
Segment assets	9,539,860	7,110,002	11,884,433	391,833	28,926,128
Including: Investment in associates and joint ventures	–	–	–	8,297	8,297
Unallocated assets					143,027
Total assets					29,069,155
Segment liabilities	(8,833,093)	(13,357,389)	(4,083,852)	(311,168)	(26,585,502)
Unallocated liabilities					(62,294)
Total liabilities					(26,647,796)
Loan commitments and financial guarantee contracts	1,213,942	874,363	–	–	2,088,305

42 OPERATING SEGMENTS (Continued)

County Area and Urban Area segments

The Group's operating segments organized by County Area and Urban Area banking business are set out as follows:

County Area banking business

The Group's County Area banking business provides a broad range of financial products and services to customers in designated County Area, through its operating branches in the counties or county-level cities throughout the PRC. The products and services mainly comprise loans, deposits, bank cards, and other types of intermediary services.

Urban Area banking business

The Group's Urban Area banking business comprises all banking activities outside of the County Area banking business, overseas branches and subsidiaries.

(Amounts in millions of Renminbi, unless otherwise stated)

42 OPERATING SEGMENTS (Continued)

County Area and Urban Area segments (Continued)

	County area banking business	Urban area banking business	Eliminations	Consolidated total
For the six months ended 30 June 2022				
External interest income	143,534	399,239	–	542,773
External interest expense	(79,620)	(162,934)	–	(242,554)
Inter-segment net interest income/(expense)	75,654	(75,654)	–	–
Net interest income	139,568	160,651	–	300,219
Fee and commission income	22,192	34,035	–	56,227
Fee and commission expense	(2,817)	(3,921)	–	(6,738)
Net fee and commission income	19,375	30,114	–	49,489
Net trading (loss)/gain	(1,020)	8,782	–	7,762
Net (loss)/gain on financial investments	(187)	3,375	–	3,188
Net gain on derecognition of financial assets measured at amortized cost	–	101	–	101
Other operating income	2,175	24,725	–	26,900
Operating income	159,911	227,748	–	387,659
Operating expenses	(45,736)	(80,235)	–	(125,971)
Credit impairment losses	(38,459)	(67,071)	–	(105,530)
Impairment losses on other assets	(2)	(15)	–	(17)
Operating profit	75,714	80,427	–	156,141
Share of results of associates and joint ventures	–	130	–	130
Profit before tax	75,714	80,557	–	156,271
Income tax expense				(27,321)
Profit for the period				128,950
Depreciation and amortization included in operating expenses	3,915	5,991	–	9,906
Capital expenditure	1,513	5,585	–	7,098
As at 30 June 2022				
Segment assets	11,609,591	20,668,795	–	32,278,386
Including: Investment in associates and joint ventures	–	8,691	–	8,691
Unallocated assets				148,034
Total assets				32,426,420
Segment liabilities	(10,644,804)	(19,227,064)	–	(29,871,868)
Unallocated liabilities				(28,339)
Total liabilities				(29,900,207)
Loan commitments and financial guarantee contracts	794,047	1,416,435	–	2,210,482

(Amounts in millions of Renminbi, unless otherwise stated)

42 OPERATING SEGMENTS (Continued)

County Area and Urban Area segments (Continued)

	County area banking business	Urban area banking business	Eliminations	Consolidated total
For the six months ended 30 June 2021				
External interest income	124,639	368,832	–	493,471
External interest expense	(68,445)	(141,669)	–	(210,114)
Inter-segment net interest income/(expense)	68,026	(68,026)	–	–
Net interest income	124,220	159,137	–	283,357
Fee and commission income	22,043	35,444	–	57,487
Fee and commission expense	(3,702)	(5,635)	–	(9,337)
Net fee and commission income	18,341	29,809	–	48,150
Net trading gain	330	8,029	–	8,359
Net (loss)/gain on financial investments	(2,058)	3,490	–	1,432
Net gain on derecognition of financial assets measured at amortized cost	–	1	–	1
Other operating income	2,397	22,558	–	24,955
Operating income	143,230	223,024	–	366,254
Operating expenses	(42,544)	(74,147)	–	(116,691)
Credit impairment losses	(40,216)	(55,922)	–	(96,138)
Impairment losses on other assets	(5)	2	–	(3)
Operating profit	60,465	92,957	–	153,422
Share of results of associates and joint ventures	–	116	–	116
Profit before tax	60,465	93,073	–	153,538
Income tax expense				(30,705)
Profit for the period				122,833
Depreciation and amortization included in operating expenses	3,753	5,910	–	9,663
Capital expenditure	2,379	5,557	–	7,936
As at 31 December 2021				
Segment assets	10,419,215	18,612,453	(105,540)	28,926,128
Including: Investment in associates and joint ventures	–	8,297	–	8,297
Unallocated assets				143,027
Total assets				29,069,155
Segment liabilities	(9,631,167)	(17,059,875)	105,540	(26,585,502)
Unallocated liabilities				(62,294)
Total liabilities				(26,647,796)
Loan commitments and financial guarantee contracts	703,422	1,384,883	–	2,088,305

(Amounts in millions of Renminbi, unless otherwise stated)

43 RELATED PARTY TRANSACTIONS

(1) The Group and the MOF

As at 30 June 2022, the MOF directly owned 35.29% (31 December 2021: 35.29%) of the ordinary shares of the Bank.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies.

The Group had the following balances and transactions with the MOF in its ordinary course of business under normal commercial terms.

	30 June 2022		31 December 2021	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Assets				
Treasury bonds and special government bond	**738,922**	**8.24%**	797,193	9.69%
Receivable from the MOF	**328,814**	**3.67%**	324,619	3.94%
Liabilities				
Due to customers	**4,328**	**0.02%**	4,018	0.02%
Other liabilities				
— redemption of treasury bonds on behalf of the MOF	**4**	**0.00%**	4	0.00%
— amount payable to the MOF	**1,450**	**0.34%**	1,286	0.26%

	Six months ended 30 June			
	2022		2021	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**15,131**	**2.79%**	14,641	2.97%
Interest expense	**(15)**	**0.01%**	(29)	0.01%
Fee and commission income	**673**	**1.20%**	470	0.82%
Net trading gain	**112**	**1.44%**	122	1.46%

Interest rate ranges for transactions with the MOF for the six months ended 30 June 2022 are as follows:

	Six months ended 30 June	
	2022	2021
	%	%
Treasury bonds and receivable from the MOF	**0.00–9.00**	0.00–9.00
Due to customers	**0.0001–1.80**	0.01–1.61

The Group's redemption commitment for treasury bonds underwriting is disclosed in Note 45 Contingent Liabilities and Commitments.

(Amounts in millions of Renminbi, unless otherwise stated)

43 RELATED PARTY TRANSACTIONS (Continued)

(2) The Group and Huijin

Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of China Investment Corporation Limited, which is incorporated with authorized capital of RMB828,209 million in Beijing, PRC. Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the Chinese State Council and does not engage in other commercial activities. Huijin exercises its legal rights and assumes obligations related to the Bank on behalf of the PRC Government.

As at 30 June 2022, Huijin directly owned 40.03% (31 December 2021: 40.03%) of the ordinary shares of the Bank.

Transactions with Huijin

The Group had the following balances and transactions with Huijin in its ordinary course of business. These balances and transactions are priced based on market prices and conducted under normal commercial terms.

	30 June 2022		31 December 2021	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Assets				
Financial investments	**35,642**	**0.40%**	52,357	0.64%
Liabilities				
Due to customers	**12,891**	**0.05%**	38,090	0.17%

	Six months ended 30 June			
	2022		2021	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**572**	**0.11%**	1,066	0.22%
Interest expense	**(267)**	**0.11%**	(172)	0.08%
Net trading gain	**26**	**0.33%**	6	0.07%

Interest rate ranges for transactions with Huijin for the six months ended 30 June 2022 are as follows:

	Six months ended 30 June	
	2022	2021
	%	%
Loans and advances to customers	**N/A**	3.15–3.55
Financial investments	**2.15–8.00**	2.00–5.15
Due to customers	**0.45–2.10**	1.495–2.10

(Amounts in millions of Renminbi, unless otherwise stated)

43 RELATED PARTY TRANSACTIONS (Continued)

(2) The Group and Huijin (Continued)

Transactions with companies under Huijin

Huijin has equity interests in certain other banks and financial institutions under the direction of the Central Government. The Group enters into transactions with these banks and financial institutions in the ordinary course of business. These balances and transactions are priced based on market prices and conducted under normal commercial terms. The Group had the following balances with companies under Huijin:

	30 June 2022		31 December 2021	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Assets				
Deposits with banks and other financial institutions	**118,845**	**31.08%**	88,842	40.66%
Placements with and loans to banks and other financial institutions	**82,675**	**15.26%**	123,271	27.58%
Derivative financial assets	**1,681**	**5.07%**	4,003	18.21%
Financial assets held under resale agreements	**41,030**	**3.71%**	27,577	3.29%
Loans and advances to customers	**30,030**	**0.17%**	20,935	0.13%
Financial investments	**793,673**	**8.85%**	736,027	8.94%
Liabilities				
Deposits from banks and other financial institutions	**110,272**	**5.11%**	79,144	4.88%
Placements from banks and other financial institutions	**73,341**	**21.00%**	68,168	23.42%
Derivative financial liabilities	**1,049**	**4.48%**	2,747	14.21%
Financial assets sold under repurchase agreements	**2,651**	**12.89%**	9,909	27.50%
Due to customers	**1,707**	**0.01%**	4,159	0.02%
Equity				
Other equity instruments	**2,000**	**0.49%**	2,000	0.56%
Off-balance sheet items				
Letters of guarantee issued and guarantees	**1,454**	**0.47%**	1,800	0.59%

(Amounts in millions of Renminbi, unless otherwise stated)

43 RELATED PARTY TRANSACTIONS (Continued)

(2) The Group and Huijin (Continued)

Transactions with companies under Huijin *(Continued)*

	Six months ended 30 June			
	2022		2021	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**11,526**	**2.12%**	11,645	2.36%
Interest expense	**(937)**	**0.39%**	(931)	0.44%
Net trading gain	**2,815**	**36.27%**	4,973	59.49%

Interest rate ranges for transactions with companies under Huijin for the six months ended 30 June 2022 are as follows:

	Six months ended 30 June	
	2022	2021
	%	%
Deposits with banks and other financial institutions	**-0.90–4.05**	0.31–3.17
Placements with and loans to banks and other financial institutions	**-0.36–4.00**	-0.50–4.05
Derivative financial assets	**2.19–3.15**	0.15–3.10
Financial assets held under resale agreements	**1.87–2.85**	2.13–3.30
Loans and advances to customers	**0.00–6.15**	0.62–4.90
Financial investments	**0.00–5.98**	0.00–5.98
Deposits from banks and other financial institutions	**0.00–3.9875**	0.01–5.00
Placements from banks and other financial institutions	**-0.39–3.52**	-0.46–4.65
Derivative financial liabilities	**1.59–2.60**	0.15–3.10
Financial assets sold under repurchase agreements	**1.89–2.30**	0.00–3.50
Due to customers	**0.00–1.85**	0.00–1.90
Other equity instruments	**4.84**	4.84

(Amounts in millions of Renminbi, unless otherwise stated)

43 RELATED PARTY TRANSACTIONS (Continued)

(3) National Council for Social Security Fund of the People's Republic of China

At 30 June 2022, the Bank's shares held by SSF accounted for 6.72% of the Bank's total share capital (31 December 2021: 6.72%). The daily business transactions between the Group and the SSF are priced based on market prices and conducted on normal commercial terms. The Group had the following balances and transactions with the SSF:

	30 June 2022		31 December 2021	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Assets				
Financial assets held under resale agreements	**28,682**	**2.59%**	43,755	5.22%
Liabilities				
Due to customers	**114,262**	**0.47%**	65,415	0.30%
Equity				
Other equity instruments	**1,250**	**0.30%**	1,250	0.35%

	Six months ended 30 June			
	2022		2021	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**5**	**0.00%**	5	0.00%
Interest expense	**(1,888)**	**0.78%**	(270)	0.13%

Interest rate ranges for transactions with SSF for the six months ended 30 June 2022 are as follows:

	Six months ended 30 June	
	2022	2021
	%	%
Financial assets held under resale agreements	**2.25–2.60**	2.30–3.80
Due to customers	**3.9875–4.2638**	3.9875–4.25
Other equity instruments	**4.84**	4.84

(Amounts in millions of Renminbi, unless otherwise stated)

43 RELATED PARTY TRANSACTIONS (Continued)

(4) The Group and other government related entities

Other than disclosed above, a significant portion of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other state controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency services, underwriting and distribution of bonds issued by government agencies, purchase, sales and redemption of investment securities issued by government agencies.

Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealing of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other state controlled entities.

(5) The Bank and its subsidiaries

The Bank had the following balances and transactions with its subsidiaries in its ordinary course of business. These balances and transactions are priced based on market prices and conducted under normal commercial terms.

	30 June 2022		31 December 2021	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Assets				
Placements with and loans to banks and other financial institutions	**84,641**	**15.62%**	84,863	18.99%
Financial investments	**133**	**0.00%**	365	0.00%
Other assets	**177**	**0.09%**	102	0.08%
Liabilities				
Deposits from banks and other financial institutions	**15,671**	**0.73%**	14,079	0.87%
Placements with and loans to banks and other financial institutions	**769**	**0.22%**	–	–
Due to customers	**1,846**	**0.01%**	1,857	0.01%
Other liabilities	**74**	**0.02%**	986	0.20%
Off-balance sheet items				
Letters of guarantee issued and guarantees	**2,113**	**0.68%**	2,034	0.67%
Non-principal guaranteed wealth management products issued by the Group	**12**	**0.00%**	16	0.00%

(Amounts in millions of Renminbi, unless otherwise stated)

43 RELATED PARTY TRANSACTIONS (Continued)

(5) The Bank and its subsidiaries (Continued)

	Six months ended 30 June			
	2022		2021	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**725**	**0.13%**	736	0.15%
Net gain on financial investments	**–**	**–**	0	0.00%
Fee and commission income	**1,429**	**2.54%**	1,275	2.22%
Other operating income	**55**	**0.20%**	0	0.00%
Interest expense	**(208)**	**0.09%**	(182)	0.09%
Operating expense	**(187)**	**0.15%**	(88)	0.08%
Fee and commission expense	**(69)**	**1.02%**	(194)	2.08%

Interest rate ranges for transactions with its subsidiaries for the six months ended 30 June 2022 are as follows:

	Six months ended 30 June	
	2022	2021
	%	%
Placements with and loans to banks and other financial institutions	**1.55–3.62**	1.22–4.65
Financial investments	**3.30–3.68**	0.00–4.70
Deposits from banks and other financial institutions	**0.003–4.125**	0.00–4.13
Deposits with banks and other financial institutions	**1.25**	N/A
Due to customers	**0.05–1.85**	0.30–3.85

(Amounts in millions of Renminbi, unless otherwise stated)

43 RELATED PARTY TRANSACTIONS (Continued)

(6) The Group and its associates and joint ventures

The Group had the following balances and transactions with its associates and joint ventures in its ordinary course of business. These balances and transactions are priced based on market prices and conducted under normal commercial terms.

	30 June 2022		31 December 2021	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Liabilities				
Deposits from banks and other financial institutions	**45**	**0.00%**	16	0.00%
Off-balance sheet items				
Non-principal guaranteed wealth management products issued by the Group	**–**	**–**	4	0.00%

	Six months ended 30 June			
	2022		2021	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest expense	**0**	**0.00%**	0	0.00%

Interest rate ranges for transactions with its associates and joint ventures for the six months ended 30 June 2022 are as follows:

	Six months ended 30 June	
	2022	2021
	%	%
Deposits from banks and other financial institutions	**0.30–1.65**	0.00–0.72

(7) Key management personnel and related natural persons transactions

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group. Key management personnel of the Group, their close relatives, and entities that are controlled, jointly controlled, or significantly influenced by either the key management personnel of the Group or their close relatives, are considered as related parties of the Group. The Group enters into banking transactions with above related parties in the normal course of business. As at 30 June 2022, the balance of loans and advances to above related parties is RMB13.56 million (31 December 2021: RMB10.40 million).

The Bank issued loan and credit card business to related natural persons (as defined in the Administrative Measures on Information Disclosure of Listed Companies issued by the CSRC). As at 30 June 2022, the balance of such loan amounted to RMB17.91 million (31 December 2021: RMB11.97 million).

(Amounts in millions of Renminbi, unless otherwise stated)

43 RELATED PARTY TRANSACTIONS (Continued)

(8) Related party transactions defined by China Banking and Insurance Regulatory Commission (CBIRC)

As at 30 June 2022, the Bank's balance of credit related transactions to the related parties as defined in the Rules on Related-Party Transactions of Banking and Insurance Institutions by the CBIRC totalled RMB97,355 million, and the balance of non-credit transaction totalled RMB2,785 million. As at 31 December 2021, the Bank's balance of credit related transactions to the related parties as defined in the Administration of Connected Transactions between Commercial Banks and Their Insiders and shareholders by the CBIRC totalled RMB4,085 million, and the balance of non-credit transaction is nil.

(9) The Group and the Annuity Scheme

The Group had the following balances and transactions with the Annuity Scheme set up by the Bank apart from the obligation for defined contribution to the Annuity Scheme:

	30 June 2022		31 December 2021	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Liabilities				
Deposits from Annuity Scheme	**6,455**	**0.03%**	6,319	0.03%
Equity				
Other equity instruments	**7,500**	**1.83%**	7,500	2.08%

	Six months ended 30 June			
	2022		2021	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest expense	**(136)**	**0.06%**	(102)	0.05%

Interest rate range for transactions with the Annuity Scheme for the six months ended 30 June 2022 is as follows:

	Six months ended 30 June	
	2022	2021
	%	%
Deposits from Annuity Scheme	**0.00–5.00**	0.00–5.00
Other equity instruments	**4.84–5.32**	4.84–5.32

(Amounts in millions of Renminbi, unless otherwise stated)

43 RELATED PARTY TRANSACTIONS (Continued)

(10) Proportion of transactions with major related parties

Related party transactions with subsidiaries have been offset in the process of preparing interim financial information. When calculating the proportion of related party transactions, related party transactions do not include related party transactions with subsidiaries.

Transaction Balance

	30 June 2022		31 December 2021	
	Related party transactions	Proportion	Related party transactions	Proportion
Deposits with banks and other financial institutions	118,845	31.08%	88,842	40.66%
Placements with and loans to banks and other financial institutions	82,675	15.26%	123,271	27.58%
Derivative financial assets	1,681	5.07%	4,003	18.21%
Financial assets held under resale agreements	69,712	6.30%	71,332	8.52%
Loans and advances to customers	30,030	0.17%	20,935	0.13%
Financial investments	1,897,051	21.16%	1,910,196	23.21%
Deposits from banks and other financial institutions	110,317	5.12%	79,160	4.88%
Placements from banks and other financial institutions	73,341	21.00%	68,168	23.42%
Derivative financial liabilities	1,049	4.48%	2,747	14.21%
Financial assets sold under repurchase agreements	2,651	12.89%	9,909	27.50%
Due to customers	139,643	0.58%	118,001	0.54%
Other liabilities	1,454	0.34%	1,290	0.26%
Other equity instruments	10,750	2.62%	10,750	2.99%
Letters of guarantee issued and guarantees	1,454	0.47%	1,800	0.59%
Non-principal guaranteed wealth management products issued by the Group	–	–	4	0.00%

Transaction amount

	Six months ended 30 June			
	2022		2021	
	Related party transactions	Proportion	Related party transactions	Proportion
Interest income	27,234	5.02%	27,357	5.54%
Interest expense	(3,243)	1.34%	(1,504)	0.72%
Net trading gain	2,953	38.04%	5,101	61.02%
Fee and commission income	673	1.20%	470	0.82%

44 STRUCTURED ENTITIES

(1) Consolidated structured entities

Structured entities consolidated by the Group include certain asset management plans, funds and securitization products issued, managed and/or invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

(2) Unconsolidated structured entities

Unconsolidated structured entities sponsored and managed by the Group

Unconsolidated structured entities sponsored and managed by the Group mainly include non-principal guaranteed WMPs, which are not subject to any guarantee by the Group of the principal invested or interest to be paid. The WMPs invest in a range of assets, most typically money market instruments, debt securities and non-standardized debt assets. As the manager of these WMPs, the Group, on behalf of the investors in these WMPs, invests the funds raised from investors to the assets as described in the investment plan related to each WMP and distributes profits to investors based on product performance.

As at 30 June 2022, the total assets invested by these WMPs amounted to RMB1,993,206 million (31 December 2021: RMB2,210,935 million) and the corresponding outstanding WMPs issued by the Group amounted to RMB1,843,806 million (31 December 2021: RMB2,072,533 million). For the six months ended 30 June 2022, the Group's interest in these WMPs included net fee and commission income of RMB2,432 million (six months ended 30 June 2021: RMB3,072 million) and there was no net interest income (six months ended 30 June 2021: RMB374 million), which related to placements and repo transactions entered into by the Group with these WMP vehicles.

The Group enters into placements and repo transactions at market interest rates with these WMPs. These transactions did not occur for the six months ended 30 June 2022 (the average balance and weighted average maturity for the six months ended 30 June 2021 were RMB25,642 million and 5.92 days.). And there was no outstanding balance for the above-mentioned transactions at 30 June 2022 and 31 December 2021. The Group was under no obligation to enter into these transactions. The outstanding balance of these transactions was presented in placements with and loans to banks and other financial institutions and financial assets held under resale agreements, which represented the Group's maximum exposure to the WMPs.

There were no contractual liquidity arrangements, guarantees or other commitments between the Group and any third parties that could increase the level of the Group's risk from WMPs disclosed above during the period ended 30 June 2022 and the year ended 31 December 2021. The Group was not required to absorb any losses incurred by WMPs.

In addition, other unconsolidated structured entities sponsored and managed by the Group included funds, asset management plans and asset-backed securities. As at 30 June 2022, the total assets of these products amounted to RMB480,070 million (31 December 2021: RMB463,451 million). For the six months ended 30 June 2022, the Group's interest in these products mainly included net fee and commission income of RMB741 million (six months ended 30 June 2021: RMB743 million).

(Amounts in millions of Renminbi, unless otherwise stated)

44 STRUCTURED ENTITIES (Continued)

(2) Unconsolidated structured entities (Continued)

Other unconsolidated structured entities held by the Group

The Group invests in other unconsolidated structured entities which are sponsored and managed by other entities for investment return, and records trading gains or losses and interest income therefrom. These unconsolidated structured entities primarily include asset management plans, wealth management products, funds, trust plans, asset-backed securities and debt investment plans, etc. As at 30 June 2022, the related carrying amount of investments and the maximum exposure by the Group to these other unconsolidated structured entities was RMB78,313 million (31 December 2021: RMB80,229 million), included under the financial assets at fair value through profit or loss, debt instrument investments at amortized cost and other debt instrument and other equity investments at fair value through other comprehensive income categories in the condensed consolidated interim statement of financial position. The information on the size of total assets of these unconsolidated structured entities was not readily available in the public domain.

45 CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings and others

The Bank and its subsidiaries are involved as demandants/defendants in certain lawsuits arising from their normal business operations. As at 30 June 2022, provisions of RMB5,273 million were made by the Group (31 December 2021: RMB5,333 million) based on court judgments or advice of legal counsel, and included in Note 34 Other Liabilities. Management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

On 28 September 2016, the Bank and its New York Branch entered into a Cease and Desist Order with the Board of Governors of the Federal Reserve System of the United States. On 4 November 2016, the Bank and its New York Branch entered into a Consent Order with New York State Department of Financial Services (the "Department") and paid a civil monetary penalty to the Department accordingly. As at 31 December 2016, the above-mentioned civil monetary penalty was paid and reflected in the consolidated financial statements for the year ended 31 December 2016.

As at 30 June 2022, the Bank and its New York Branch have basically completed the main part of the rectification, and it is expected that this event is unlikely to lead to the outflow of economic benefits.

Capital commitments

	30 June 2022	31 December 2021
Contracted but not provided for	**2,094**	1,961

(Amounts in millions of Renminbi, unless otherwise stated)

45 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Loan commitments and financial guarantee contracts

	30 June 2022	31 December 2021
Loan commitments		
— With an original maturity of less than 1 year	24,068	21,567
— With an original maturity of 1 year or above	360,312	438,333
Subtotal	384,380	459,900
Bank acceptances	542,500	414,934
Credit card commitments	780,636	743,594
Guarantee and letters of guarantee	311,664	304,238
Letters of credit	191,302	165,639
Total	**2,210,482**	2,088,305

Loan commitments and financial guarantee contracts represent credit cards and general credit facility limits granted to customers. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantee and letters of guarantee or bank acceptances.

Credit risk weighted amount for credit commitments

Credit risk weighted amount for credit commitments represents the counterparty credit risk associated with credit commitments and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC which was effective 1 January 2013 and is dependent on, among other factors, creditworthiness of counterparties and maturity characteristics of each type of contract. As at 30 June 2022 and 31 December 2021, credit risk weighted amount for credit commitments was measured under the Internal Ratings Based Approach.

	30 June 2022	31 December 2021
Credit risk weighted amount for credit commitments	1,103,427	1,178,909

Collateral

Assets pledged

At the end of each reporting period, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	30 June 2022	31 December 2021
Debt securities	20,614	33,407
Bills	2,100	4,749
Total	**22,714**	38,156

As at 30 June 2022, the financial assets sold under repurchase agreements (Note 31) by the Group are primarily due within 1 year from the effective dates of these agreements.

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 46 Transferred Financial Assets.

45 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Collateral (Continued)

Assets pledged (Continued)

In addition, debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements as collateral for derivative transactions or borrowings from central banks etc. by the Group as at 30 June 2022 amounted to RMB1,335,238 million in total (31 December 2021: RMB1,095,330 million).

Collateral accepted

The Group received debt securities and bills as collateral in connection with the securities lending transactions and the purchase of assets under resale agreements (Note 20 Financial Assets Held Under Resale Agreements). The Group did not hold any collateral that can be resold or re-pledged as at 30 June 2022 and 31 December 2021.

Redemption commitment for treasury bonds

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at par at any time prior to maturity and the Group is committed to honor such redemption requests. The redemption price is calculated as the par value of the bond plus payable interest in accordance with the terms of the related early redemption arrangement.

As at 30 June 2022, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity was RMB56,009 million (31 December 2021: RMB63,405 million). The original maturities of these bonds vary from 3 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

Commitment on security underwriting

As at 30 June 2022, the unexpired securities underwriting obligations of the Group amounted to RMB34,282 million (31 December 2021: RMB140 million).

46 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business whereby it transfers recognized financial assets to third parties or to structured entities. In some cases these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group retains substantially all the risks and rewards of these assets, the Group continues to recognize the transferred assets.

Securitization transactions

The Group enters into securitization transactions in the normal course of business by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed, among other factors, whether or not to derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its control over these assets.

46 TRANSFERRED FINANCIAL ASSETS (Continued)

Securitization transactions (Continued)

As at 30 June 2022, the total amount of unexpired asset-backed securities included accumulative loans transferred by the Group before impairment allowance was RMB98,010 million (31 December 2021: RMB102,388 million). RMB6,208 million of this balance (31 December 2021: RMB6,706 million) was in respect of non-performing loans and the Group concluded that these loans transferred were qualified for full derecognition. The remaining balance of RMB91,802 million (31 December 2021: RMB95,682 million) was in respect of performing loans and the Group concluded that it had continuing involvement in these assets. As at 30 June 2022, the Group continued to recognize assets of RMB9,141 million (31 December 2021: RMB9,691 million) under loans and advances to customers. The Group also recognized other assets and other liabilities of the same amount arising from such continuing involvement.

Transfer of non-performing loans

For the six months ended 30 June 2022, the Group transferred non-performing loans through disposal to third parties or issuing asset-back securities, with gross loan balance of RMB4,245 million (six months ended 30 June 2021: RMB8,171 million). The Group concluded that these transferred assets were qualified for full derecognition.

Financial assets sold under repurchase agreements

The Group did not derecognize financial assets transferred as collateral in connection with repurchase agreements. As at 30 June 2022, of these collateral pledged disclosed in Note 45 Contingent Liabilities and Commitments — Collateral, RMB938 million (31 December 2021: RMB707 million) represented debt securities whereby legal title has been transferred to counterparties.

Securities lending transactions

For debt securities lent to counterparties under securities lending agreements, the counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. As at 30 June 2022, the carrying amount of debt securities lent to counterparties was RMB13,730 million (31 December 2021: there was no debt securities lent to counterparties).

47 FINANCIAL RISK MANAGEMENT

Overview

The Group's primary risk management objective is to maintain risk within acceptable parameters to meet the requirements of stable operation from regulators, depositors and other stakeholders, as well as to maximize return for investors within an acceptable level of risk.

The Group has designed risk management policies, which address, among other things, the establishment of risk limits and controls to identify, analyze, monitor and report risks. Relevant and timely information used to conduct these risk management activities is provided through information systems maintained by the Group and intended to address the Group's information needs in this area. The Group regularly reviews its risk management policies and systems to address changes in markets, products and emerging best practices.

The most significant types of risk to which the Group is exposed are credit risk, market risk and liquidity risk. Market risk includes foreign exchange rate risk, interest rate risk and other price risk.

Risk management framework

The Board of Directors of the Group is responsible for formulating the Group's overall risk appetite, reviewing and approving the Group's major risk management policies and procedures.

The risk management framework includes: the senior management of the Group is responsible for the implementation of risk management, including implementing risk management appetite and strategies, formulating risk management policies and procedures, and establishing a risk management organizational structure to manage the Group's major risks.

47.1 Credit risk

Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations when due. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advance, commitment or investment. The Group's major credit risks arise from loans and advances, treasury operations and off-balance sheet related credit risk exposures.

The Group's credit risk management and governance structure comprise the Board of Directors and its Risk Management and Consumer Protection Committee, Senior Management and its Risk Management and Internal Control Committee, Credit Approval Committee and Asset Disposal Committee, as well as the Risk Management Department, Credit Management Department, Credit Approval Department and related front-office customer departments. The Group's credit risk management function operates under centralized management and authorization under a range of specified limits.

The Group performs standardized credit management procedures, including credit due diligence and proposal submission, credit underwriting review, loan disbursement, post-lending monitoring and non-performing loan management. The Group enhances its credit risk management by strictly complying with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post-lending monitoring measures; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrading the credit management system.

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include: (1) ceasing enforcement activity, and (2) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

Credit risk management (Continued)

During the reporting period, the Group continued to improve the comprehensive risk management system to ensure effective risk management. The Group strengthened credit risk management in key areas and asset quality control. Considering COVID-19 prevention and collection and disposal of non-performing loans, the Group accelerated the disposal of non-performing loans to ensure the stability of assets quality.

Apart from the credit risk exposures on credit-related assets, the credit risk arising from treasury operation business is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and applying appropriate limits subject to different level of management authority, and timely reviewing and adjusting those limits in credit system. In addition, the Group also provides loan commitments and financial guarantee services to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the related contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures.

Measurement of ECL

The Group applies the ECL model to calculate loss allowances for its debt financial instruments measured at amortized cost and FVOCI, as well as loan commitments and financial guarantee contracts.

Methods applied by the Group in assessing the expected credit losses of its financial assets include risk parameters model and the discounted cash flow ("DCF") model. Retail credit assets and Stage I and Stage II wholesale credit assets are assessed using risk parameters, while Stage III wholesale credit assets are subject to the discounted cash flow method.

The Group assesses ECL in light of forward-looking information and uses models and assumptions in calculating the expected credit losses. These models and assumptions relate to the future macroeconomic conditions and the borrowers' creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). In assessing the expected credit risks in accordance with accounting standards, the Group uses the judgments, assumptions and estimates where appropriate, including:

— Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL

— Parameters for measuring ECL

— Criteria for significant increase in credit risk and default definition

— Definition of credit-impaired financial assets

— Forward-looking information

— Estimation of future cash flows for Stage III wholesale credit assets

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

Measurement of ECL *(Continued)*

Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL

For measurement of ECL, segmentation of portfolio is based on similar credit risk characteristics. The Group classified clients into wholesale clients and retail clients based on the nature of debtors. In performing the portfolio segmentation of wholesale credit assets, the Group considers the type of borrower, industry, loan usage, and security type. When performing the portfolio segmentation for retail credit assets, the Group considers loan usage and security type to ensure the reliability of its credit risk segmentation.

Parameters for measuring ECL

According to whether there is a significant increase in credit risk and whether a financial asset has become credit-impaired, the Group recognizes an impairment allowance based on the expected credit loss for the next 12 months or the entire lifetime of the financial asset. The relevant parameters of ECL measurement include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group establishes its PD models, LGD models and EAD models based on the internal rating based system as currently used for its risk management purpose, in accordance with the requirements of IFRS 9, in light of quantitative analyzes of historical statistics (such as counterparty ratings, guarantee methods and collateral types, repayment methods, etc.) and forward-looking information.

The parameters are defined as follows:

— PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months ("12m PD"), or over the remaining lifetime ("Lifetime PD") of the obligation;

— EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months ("12m EAD") or over the remaining lifetime ("Lifetime EAD");

— LGD represents the Group's expectation of the extent of loss on defaulted exposure. It varies depending on the type of counterparty, method of recourse and priority, and the availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

Criteria for significant increase in credit risk ("SICR") and default definition

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. For the purpose of staging assessment of its financial assets, the Group thoroughly considers various reasonable and supportable information that may reflect whether or not there has been a significant change in their credit risk, including forward-looking information. Key factors considered include regulatory and operating environments, internal and external credit ratings, solvency, viability as a going concern, terms of loan contracts, repayment behaviors, among others. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments. The definition of default refers to the failure to pay the debt as agreed in the contract, or other violations of the debt contract and have a significant impact on the normal debt repayment.

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

Measurement of ECL *(Continued)*

Criteria for significant increase in credit risk ("SICR") and default definition (Continued)

The Group sets quantitative and qualitative criteria to determine whether or not the credit risk of a financial instrument has increased significantly since its initial recognition. The criteria include changes in the borrower's PD, changes in its credit risk classification and other factors. In particular, when the credit risk classification changes from Normal upon initial recognition to Special Mention, there has been SICR. When the borrower's PD rises to a certain level, there has been a significant increase in credit risk. Criteria to determine significant increase in credit risk varied based on the original PD upon initial recognition. If the borrower's original PD is relatively low (for example, lower than 3%), there has been a significant increase in credit risk when the credit grade falls at least 6 notches. According to IFRS 9, a backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The Group recognizes a financial instrument as having low credit risk if its internal rating is consistent with the globally accepted definition for low credit risk (e.g. external "investment grade" rating).

Definition of credit-impaired financial assets

The criteria adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives for relevant financial instruments, in addition to consideration of quantitative and qualitative indicators. In assessing whether a borrower has become credit-impaired, the Group mainly considers the following factors:

— Significant financial difficulty of the issuer or the borrower;

— A breach of contract, such as a default or past due event in relation to interest or principal payment;

— The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

— It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

— The disappearance of an active market for that financial asset because of financial difficulties;

— The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;

— The borrower is overdue for more than 90 days in any principal, advances, interest or investment in bonds due to the Group.

The credit impairment of a financial asset may be caused by the combined effect of multiple events rather than any single discrete event.

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

***Measurement of ECL** (Continued)*

Forward-looking information

The assessment of whether or not there has been a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the forward-looking information that affect the credit risk and ECL of various portfolio. Macro-economic indicators include Gross Domestic Product (GDP), Consumer Price Index (CPI) and Industrial Added Value, etc.

The impact of these forward-looking information on the PDs and the LGDs varies from one portfolio to another. The Group comprehensively considers internal and external data, expert forecasts and statistical analysis to determine the correlation between these forward-looking information and the PDs and LGDs. The Group assesses and forecasts these forward-looking information regularly according to the external economic development, industry, product and regional risk changes, calculates the best estimates for the future, and regularly reviews and assesses results.

As at 30 June 2022, the Group has assessed and forecasted the relevant macroeconomic indicators for 2022, of which the forecast value of 2022 GDP growth rate under each scenario is as follows: 5.30% under base scenario, 6.36% under upside scenario, and 2.68% under downside scenario.

Based on statistical analysis and expert judgements, the Group determines the weightings of multiple scenarios and the corresponding forward-looking information forecast under each scenario. The weighting of base scenario is greater than the aggregated weightings of the other two scenarios. At 30 June 2022, the weightings of the Group's base, upside and downside scenarios have not changed from 31 December 2021. The Group uses the weighted 12 months ECL (Stage I) or weighted lifetime ECL (Stage II and Stage III) to measure relevant impairment allowances. These weighted credit losses are calculated by multiplying the expected credit loss under each scenario by the assigned scenario weighting.

Estimation of future cash flows for Stage III wholesale credit assets

The Group measures the ECL for Stage III wholesale credit assets using DCF method. Under DCF method, the loss allowance is calculated based on the estimation of future cash flows. At each measurement date, the Group projects the future cash inflows of relevant assets under different scenarios to estimate the probability weighted cash flow of each future period. The cash flows are discounted and aggregated to get the present value of the assets' future cash flows.

Maximum exposure to credit risk without taking account of any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of each reporting period, without taking account of any collateral held or other credit enhancements. The exposure to credit risk at the end of each reporting period primarily arises from credit and treasury operations. In addition, off-balance sheet items such as loan commitments, credit card commitments, bank acceptances, guarantee and letters of guarantee and letters of credit also include credit risks.

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

Maximum exposure to credit risk without taking account of any collateral held or other credit enhancements *(Continued)*

A summary of the maximum exposure to credit risk as at the end of the reporting period is as follows:

	30 June 2022	31 December 2021
Balances with central banks	**2,597,679**	2,246,796
Deposits with banks and other financial institutions	**382,388**	218,500
Placements with and loans to banks and other financial institutions	**541,846**	446,944
Derivative financial assets	**33,174**	21,978
Financial assets held under resale agreements	**1,106,640**	837,637
Loans and advances to customers	**18,036,172**	16,454,503
Financial investments		
Financial asset at fair value through profit or loss	**334,089**	328,769
Debt instrument investments at amortized cost	**6,938,657**	6,372,522
Other debt instrument investments at fair value through other comprehensive income	**1,562,870**	1,392,691
Other financial assets	**140,911**	77,881
Subtotal	**31,674,426**	28,398,221
Loan commitments and financial guarantee contracts	**2,181,739**	2,068,034
Total	**33,856,165**	30,466,255

The Group has implemented specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level. The most typical practice is obtaining guarantee deposits, collateral and guarantees. The amount and type of acceptable collateral are determined through the assessment of credit risk of borrowers or counterparties. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

The main types of collateral obtained are as follows:

— Mortgage loans to retail customers are generally collateralized by mortgages over residential properties;

— Other personal lending and corporate loans and advances are primarily collateralized by charges over land and properties or other assets of the borrowers; and

— Financial assets held under resale agreements transactions are primarily collateralized by debt securities and bills.

The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

Loans and advances to customers

The below information does not include accrued interests of loans and advances to customers.

(1) The composition of loans and advances to customers by geographical area is analyzed as follows:

	30 June 2022		31 December 2021	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Head office	**423,910**	**3.8**	313,248	3.1
Yangtze River Delta	**2,785,506**	**24.7**	2,383,014	23.8
Pearl River Delta	**1,520,099**	**13.5**	1,325,589	13.2
Bohai Rim	**1,614,604**	**14.3**	1,427,512	14.3
Central China	**1,642,779**	**14.6**	1,477,841	14.8
Western China	**2,494,386**	**22.1**	2,297,775	23.0
Northeastern China	**380,831**	**3.4**	367,382	3.7
Overseas and Others	**403,927**	**3.6**	406,823	4.1
Subtotal	**11,266,042**	**100.0**	9,999,184	100.0
Personal loans and advances				
Head office	**43**	**0.0**	47	0.0
Yangtze River Delta	**1,762,784**	**23.5**	1,705,450	23.9
Pearl River Delta	**1,578,043**	**21.0**	1,514,233	21.2
Bohai Rim	**1,073,610**	**14.3**	1,033,741	14.5
Central China	**1,286,148**	**17.1**	1,187,096	16.6
Western China	**1,552,478**	**20.7**	1,451,317	20.3
Northeastern China	**230,318**	**3.1**	225,328	3.2
Overseas and Others	**20,857**	**0.3**	19,356	0.3
Subtotal	**7,504,281**	**100.0**	7,136,568	100.0
Gross loans and advances to customers	**18,770,323**		17,135,752	

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

***Loans and advances to customers** (Continued)*

(2) The composition of loans and advances to customers by industry is analyzed as follows:

	30 June 2022		31 December 2021	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Transportation, storage and postal services	2,267,949	20.1	2,145,617	21.5
Manufacturing	2,026,737	18.0	1,694,879	17.0
Leasing and commercial services	1,673,537	14.9	1,507,059	15.1
Production and supply of electricity, heating, gas and water	1,142,937	10.1	1,054,517	10.5
Real estate	890,035	7.9	876,407	8.8
Water, environment and public utilities management	816,875	7.3	719,530	7.2
Retail and wholesale	739,869	6.6	574,187	5.7
Finance	560,851	5.0	446,486	4.5
Construction	406,558	3.6	303,347	3.0
Mining	205,481	1.8	203,937	2.0
Others	535,213	4.7	473,218	4.7
Subtotal	11,266,042	100.0	9,999,184	100.0
Personal loans and advances				
Residential mortgage	5,344,453	71.3	5,242,297	73.4
Personal business	550,809	7.3	469,498	6.6
Personal consumption	205,654	2.7	193,706	2.7
Credit cards	651,745	8.7	626,783	8.8
Others	751,620	10.0	604,284	8.5
Subtotal	7,504,281	100.0	7,136,568	100.0
Gross loans and advances to customers	18,770,323		17,135,752	

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

Loans and advances to customers *(Continued)*

(3) *The composition of loans and advances to customers by contractual maturity and security type is analyzed as follows:*

	30 June 2022			
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**
Unsecured loans	**2,792,001**	**1,068,512**	**1,890,687**	**5,751,200**
Guaranteed loans	**783,116**	**525,586**	**927,195**	**2,235,897**
Loans secured by mortgages	**1,371,805**	**614,507**	**6,243,133**	**8,229,445**
Pledged loans	**580,297**	**148,432**	**1,825,052**	**2,553,781**
Total	**5,527,219**	**2,357,037**	**10,886,067**	**18,770,323**

	31 December 2021			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	2,307,472	860,788	1,824,122	4,992,382
Guaranteed loans	667,336	466,119	777,262	1,910,717
Loans secured by mortgages	1,279,772	587,215	6,096,590	7,963,577
Pledged loans	386,734	118,536	1,763,806	2,269,076
Total	4,641,314	2,032,658	10,461,780	17,135,752

(4) *Overdue loans (i)*

	30 June 2022					
	Overdue 1–30 days	**Overdue 31–90 days**	**Overdue 91 to 360 days**	**Overdue 361 days to 3 years**	**Overdue over 3 years**	**Total**
Unsecured loans	**9,634**	**5,508**	**12,295**	**5,819**	**2,716**	**35,972**
Guaranteed loans	**3,268**	**1,845**	**10,517**	**7,933**	**1,922**	**25,485**
Loans secured by mortgages	**28,458**	**24,129**	**34,951**	**21,345**	**6,628**	**115,511**
Pledged loans	**612**	**861**	**2,879**	**3,577**	**2,671**	**10,600**
Total	**41,972**	**32,343**	**60,642**	**38,674**	**13,937**	**187,568**

	31 December 2021					
	Overdue 1–30 days	Overdue 31–90 days	Overdue 91 to 360 days	Overdue 361 days to 3 years	Overdue over 3 years	Total
Unsecured loans	7,313	4,388	10,949	4,431	4,318	31,399
Guaranteed loans	5,017	2,953	7,569	9,031	1,876	26,446
Loans secured by mortgages	30,388	21,419	29,563	22,740	7,734	111,844
Pledged loans	1,922	959	4,766	4,684	2,901	15,232
Total	44,640	29,719	52,847	40,886	16,829	184,921

(i) *When either loan principal or interest is overdue more than one day (inclusive) in any period, the whole loan is classified as overdue loan.*

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

Loans and advances to customers *(Continued)*

(5) Credit quality of loans and advances to customers

Within the credit-impaired loans and advances, the portions covered and not covered by collaterals held are as follows:

	30 June 2022	31 December 2021
Portion covered	150,177	141,243
Portion not covered	114,278	104,539
Total	**264,455**	245,782

(6) Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The gross carrying amount of the financial asset is recalculated and the related gain or loss is recognized in profit and loss. The gross carrying amount of the financial asset is determined based on the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate.

The Group monitors the subsequent performance of modified assets. If the Group determine that the credit risk has significantly improved after modified, the impairment allowance of these assets will be measured on the basis of 12 months ECL instead of the lifetime ECL.

Rescheduled loan is a loan which the contractual terms were renegotiated between the Group and borrowers because of deterioration in borrowers' financial position, or the inability to meet borrowers' original repayment schedule. Rescheduled loans and advances of the Group as at 30 June 2022 amounted to RMB18,669 million (31 December 2021: RMB18,307 million).

For the six months ended 30 June 2022, as a result of debt-for-equity swaps of bankruptcy reorganization, the Group recognized ordinary shares with a fair value of RMB385 million (six months ended 30 June 2021: RMB1,365 million). The loss associated with the debt-for-equity swaps of bankruptcy reorganization was not significant.

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

Debt instruments

Credit quality of debt instruments

(1) Analysis of the expected credit loss stages of debt instrument investments at amortized cost and other debt instruments at fair value through other comprehensive income were disclosed in Note 22.2 and Note 22.3, respectively.

(2) Debt instruments analyzed by credit rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The Group classified the credit risk levels of financial assets measured by ECL into "Low" (credit risk in good condition), "Medium" (increased credit risk), and "High" (credit risk in severe condition), based on the quality of assets. The credit risk level is used for the purpose of the Group's internal credit risk management. "Low" refers to assets with good credit quality. There is no sufficient reason to doubt that the assets are not expected to fulfill its contractual obligation to repay or if there is any other behaviors breaching the debt contracts that would significantly impact the repayment of debt according to contract terms. "Medium" refers to assets facing obvious negative factors impacting its repayment capacity, but not yet have non-repayment behaviors. "High" refers to non-repayment according to the debt contract terms, or other behaviors breaching the debt contracts and having significant impact on the repayment of debt according to contract terms.

The carrying amounts of debt instrument investments at amortized cost and other debt instrument investments at fair value through other comprehensive income analyzed by their credit rating as at the end of the reporting period are as follows (i):

		30 June 2022			
Credit grade	**Note**	**Low**	**Medium**	**High**	**Total**
Debt securities issued by:					
— Governments		**5,433,204**	**–**	**–**	**5,433,204**
— Public sector and quasi-governments		**1,856,598**	**–**	**–**	**1,856,598**
— Financial institutions		**576,658**	**–**	**–**	**576,658**
— Corporates	(ii)	**185,545**	**–**	**251**	**185,796**
Special government bond		**95,162**	**–**	**–**	**95,162**
Receivable from the MOF		**328,814**	**–**	**–**	**328,814**
Others		**24,938**	**337**	**20**	**25,295**
Total		**8,500,919**	**337**	**271**	**8,501,527**

		31 December 2021			
Credit grade	Note	Low	Medium	High	Total
Debt securities issued by:					
— Governments		4,807,834	–	–	4,807,834
— Public sector and quasi-governments		1,787,588	–	–	1,787,588
— Financial institutions		511,253	1,218	–	512,471
— Corporates	(ii)	209,339	253	32	209,624
Special government bond		94,122	–	–	94,122
Receivable from the MOF		324,619	–	–	324,619
Others		28,389	548	18	28,955
Total		7,763,144	2,019	50	7,765,213

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

***Debt instruments** (Continued)*

(2) Debt instruments analyzed by credit rating (Continued)

(i) The ratings above were internal ratings obtained from the Group, financial assets at fair value through profit or loss was not included in the credit grade table as at 30 June 2022 and 31 December 2021.

(ii) As at 30 June 2022, the ratings of super short-term commercial papers of the Group amounted to RMB2,403 million (31 December 2021: RMB3,634 million) included in corporate bonds above are based on issuer rating for this credit risk analysis.

47.2 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in meeting obligations that are settled by delivering cash or another financial asset.

The Group's Assets and Liabilities Management Department manages its liquidity risk through:

— Optimizing asset and liability structure;

— Maintaining stability of deposit base;

— Making projections of future cash flows, and evaluating the appropriate liquid asset position;

— Maintaining an efficient internal funds transfer mechanism within the Group;

— Performing stress testing on a regular basis.

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities

The tables below summarize the maturity analysis of financial assets and financial liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting period:

	30 June 2022								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Cash and balances with central banks	–	427,251	412	975	–	–	–	2,240,889	2,669,527
Deposits with banks and other financial institutions	–	94,020	85,150	62,187	137,113	3,918	–	–	382,388
Placements with and loans to banks and other financial institutions	–	–	213,030	100,499	183,608	41,993	2,716	–	541,846
Derivative financial assets	–	–	4,869	5,724	17,854	4,485	242	–	33,174
Financial assets held under resale agreements	3,872	–	1,076,110	22,915	3,743	–	–	–	1,106,640
Loans and advances to customers	17,385	–	594,287	816,081	4,289,467	3,673,915	8,645,037	–	18,036,172
Financial assets at fair value through profit or loss	–	4,075	6,082	14,200	74,445	48,426	184,413	128,224	459,865
Debt instrument investments at amortized cost	19	–	128,400	143,159	828,982	2,323,716	3,514,381	–	6,938,657
Other debt instrument and other equity investments at fair value through other comprehensive income	39	–	66,559	116,979	289,754	625,240	464,299	4,563	1,567,433
Other financial assets	1,557	134,746	1,964	774	1,620	40	76	134	140,911
Total financial assets	22,872	660,092	2,176,863	1,283,493	5,826,586	6,721,733	12,811,164	2,373,810	31,876,613
Borrowings from central banks	–	(32)	(8,440)	(250,866)	(678,365)	(1,565)	–	–	(939,268)
Deposits from banks and other financial institutions	–	(1,517,819)	(5,626)	(61,086)	(417,036)	(151,640)	(3,030)	–	(2,156,237)
Placements from banks and other financial institutions	–	(14)	(141,488)	(114,430)	(84,007)	(4,877)	(4,444)	–	(349,260)
Financial liabilities at fair value through profit or loss	–	(11,447)	(142)	–	–	(44)	(207)	–	(11,840)
Derivative financial liabilities	–	–	(5,286)	(4,799)	(11,396)	(1,927)	(2)	–	(23,410)
Financial assets sold under repurchase agreements	–	–	(7,679)	(7,848)	(3,889)	(1,158)	–	–	(20,574)
Due to customers	–	(13,226,745)	(522,062)	(1,125,202)	(4,220,537)	(5,020,212)	(5,096)	–	(24,119,854)
Debt securities issued	–	–	(175,763)	(147,930)	(985,998)	(110,816)	(355,024)	–	(1,775,531)
Other financial liabilities	–	(135,373)	(2,708)	(1,436)	(10,844)	(53,070)	(72,476)	(885)	(276,792)
Total financial liabilities	–	(14,891,430)	(869,194)	(1,713,597)	(6,412,072)	(5,345,309)	(440,279)	(885)	(29,672,766)
Net position	22,872	(14,231,338)	1,307,669	(430,104)	(585,486)	1,376,424	12,370,885	2,372,925	2,203,847

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities *(Continued)*

The tables below summarize the maturity analysis of financial assets and financial liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting period (Continued):

	31 Decemeber 2021								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Cash and balances with central banks	–	175,620	–	944	–	–	–	2,144,842	2,321,406
Deposits with banks and other financial institutions	–	78,385	29,425	41,606	57,200	11,884	–	–	218,500
Placements with and loans to banks and other financial institutions	–	–	181,508	115,957	132,768	14,975	1,736	–	446,944
Derivative financial assets	–	–	4,284	4,770	9,233	3,688	3	–	21,978
Financial assets held under resale agreements	3,872	–	810,227	20,738	2,800	–	–	–	837,637
Loans and advances to customers	16,555	–	661,910	817,875	3,243,507	3,371,483	8,343,173	–	16,454,503
Financial assets at fair value through profit or loss	–	4,721	19,554	11,609	81,376	38,219	175,922	128,840	460,241
Debt instrument investments at amortized cost	394	–	57,670	111,377	593,026	2,740,193	2,869,862	–	6,372,522
Other debt instrument and other equity investments at fair value through other comprehensive income	32	–	36,490	72,014	294,752	611,990	377,413	4,589	1,397,280
Other financial assets	1,836	67,612	309	3,442	959	54	98	3,571	77,881
Total financial assets	22,689	326,338	1,801,377	1,200,332	4,415,621	6,792,486	11,768,207	2,281,842	28,608,892
Borrowings from central banks	–	(32)	(49,889)	(31,806)	(663,870)	(1,616)	–	–	(747,213)
Deposits from banks and other financial institutions	–	(1,105,856)	(28,658)	(139,121)	(139,143)	(209,588)	–	–	(1,622,366)
Placements from banks and other financial institutions	–	–	(106,957)	(92,770)	(80,218)	(6,394)	(4,766)	–	(291,105)
Financial liabilities at fair value through profit or loss	–	(15,646)	–	–	–	–	(214)	–	(15,860)
Derivative financial liabilities	–	–	(3,918)	(4,255)	(7,643)	(3,305)	(216)	–	(19,337)
Financial assets sold under repurchase agreements	–	–	(18,841)	(6,877)	(9,156)	(1,159)	–	–	(36,033)
Due to customers	–	(12,386,137)	(603,855)	(1,303,745)	(3,209,263)	(4,388,038)	(16,089)	–	(21,907,127)
Debt securities issued	–	–	(84,856)	(277,220)	(723,814)	(126,768)	(294,999)	–	(1,507,657)
Other financial liabilities	–	(187,376)	(4,484)	(7,810)	(11,122)	(42,500)	(63,212)	(2,039)	(318,543)
Total financial liabilities	–	(13,695,047)	(901,458)	(1,863,604)	(4,844,229)	(4,779,368)	(379,496)	(2,039)	(26,465,241)
Net position	22,689	(13,368,709)	899,919	(663,272)	(428,608)	2,013,118	11,388,711	2,279,803	2,143,651

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows

Assets available to meet obligations related to the Group's liabilities and outstanding credit commitments primarily include cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets at fair value through profit or loss, and financial assets held under resale agreements. In the normal course of business, the majority of customer deposits repayable on demand or on maturity are expected to be retained. In addition, the Group is able to sell the other debt instrument and other equity investments at fair value through other comprehensive income to repay matured liabilities, if necessary.

The tables below present the undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

	30 June 2022								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	–	427,251	412	975	–	–	–	2,240,889	2,669,527
Deposits with banks and other financial institutions	–	96,104	85,261	62,460	138,953	4,031	–	–	386,809
Placements with and loans to banks and other financial institutions	–	–	214,068	101,306	187,126	46,207	2,802	–	551,509
Financial assets held under resale agreements	3,915	–	1,079,207	23,028	3,785	–	–	–	1,109,935
Loans and advances to customers	68,411	–	698,717	993,191	5,055,409	5,857,706	13,030,002	–	25,703,436
Financial assets at fair value through profit or loss	–	4,075	5,857	14,915	79,568	76,445	206,930	128,224	516,014
Debt instrument investments at amortized cost	938	–	130,096	155,791	915,962	2,999,446	4,371,562	–	8,573,795
Other debt instrument and other equity investments at fair value through other comprehensive income	120	–	67,702	120,364	315,838	720,224	547,334	4,563	1,776,145
Other financial assets	4,199	137,625	1,988	778	1,648	40	76	135	146,489
Total non-derivative financial assets	77,583	665,055	2,283,308	1,472,808	6,698,289	9,704,099	18,158,706	2,373,811	41,433,659
Non-derivative financial liabilities									
Borrowings from central banks	–	(32)	(8,515)	(252,488)	(687,813)	(1,551)	–	–	(950,399)
Deposits from banks and other financial institutions	–	(1,517,819)	(5,861)	(64,145)	(431,943)	(165,489)	(3,107)	–	(2,188,364)
Placements from banks and other financial institutions	–	(14)	(141,598)	(114,921)	(85,565)	(5,885)	(4,666)	–	(352,649)
Financial liabilities at fair value through profit or loss	–	(11,447)	(142)	–	–	(44)	(207)	–	(11,840)
Financial assets sold under repurchase agreements	–	–	(7,681)	(7,857)	(3,913)	(1,160)	–	–	(20,611)
Due to customers	–	(13,226,745)	(524,247)	(1,129,072)	(4,286,411)	(5,364,907)	(5,660)	–	(24,537,042)
Debt securities issued	–	–	(176,090)	(148,604)	(1,012,421)	(174,391)	(396,704)	–	(1,908,210)
Other financial liabilities	–	(135,373)	(2,723)	(1,457)	(10,944)	(53,324)	(72,515)	(885)	(277,221)
Total non-derivative financial liabilities	–	(14,891,430)	(866,857)	(1,718,544)	(6,519,010)	(5,766,751)	(482,859)	(885)	(30,246,336)
Net position	77,583	(14,226,375)	1,416,451	(245,736)	179,279	3,937,348	17,675,847	2,372,926	11,187,323

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows (Continued)

The tables below present the undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period (Continued):

	31 December 2021								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	–	175,620	–	944	–	–	–	2,144,842	2,321,406
Deposits with banks and other financial institutions	–	79,506	29,581	42,282	57,883	12,424	–	–	221,676
Placements with and loans to banks and other financial institutions	–	–	183,457	118,102	134,679	16,303	1,840	–	454,381
Financial assets held under resale agreements	3,915	–	813,408	20,849	2,826	–	–	–	840,998
Loans and advances to customers	66,076	–	733,902	981,574	3,956,763	5,475,868	12,476,078	–	23,690,261
Financial assets at fair value through profit or loss	–	4,721	19,856	12,128	88,156	64,095	196,609	128,840	514,405
Debt instrument investments at amortized cost	1,269	–	58,718	118,783	706,909	3,315,201	3,548,575	–	7,749,455
Other debt instrument and other equity investments at fair value through other comprehensive income	119	–	36,686	73,474	316,861	691,188	435,749	4,589	1,558,666
Other financial assets	3,821	70,332	362	3,456	992	55	98	3,617	82,733
Total non-derivative financial assets	75,200	330,179	1,875,970	1,371,592	5,265,069	9,575,134	16,658,949	2,281,888	37,433,981
Non-derivative financial liabilities									
Borrowings from central banks	–	(32)	(49,991)	(32,020)	(678,145)	(1,597)	–	–	(761,785)
Deposits from banks and other financial institutions	–	(1,105,856)	(29,446)	(140,548)	(146,482)	(229,627)	–	–	(1,651,959)
Placements from banks and other financial institutions	–	–	(106,990)	(93,027)	(80,847)	(7,283)	(4,967)	–	(293,114)
Financial liabilities at fair value through profit or loss	–	(15,646)	–	–	–	–	(214)	–	(15,860)
Financial assets sold under repurchase agreements	–	–	(18,848)	(6,898)	(9,172)	(1,162)	–	–	(36,080)
Due to customers	–	(12,386,137)	(604,386)	(1,308,635)	(3,255,950)	(4,683,792)	(19,066)	–	(22,257,966)
Debt securities issued	–	–	(84,971)	(278,957)	(740,163)	(182,848)	(331,012)	–	(1,617,951)
Other financial liabilities	–	(187,376)	(4,553)	(7,854)	(11,313)	(43,000)	(63,288)	(2,039)	(319,423)
Total non-derivative financial liabilities	–	(13,695,047)	(899,185)	(1,867,939)	(4,922,072)	(5,149,309)	(418,547)	(2,039)	(26,954,138)
Net position	75,200	(13,364,868)	976,785	(496,347)	342,997	4,425,825	16,240,402	2,279,849	10,479,843

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Liquidity risk (Continued)

Derivative cash flows

Derivatives settled on a net basis

The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

	30 June 2022					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Derivatives on a net basis	**(717)**	**(133)**	**(969)**	**284**	**–**	**(1,535)**

	31 December 2021					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Derivatives on a net basis	650	512	448	(101)	–	1,509

Derivatives settled on a gross basis

The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

	30 June 2022					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Derivatives settled on a gross basis						
— Cash inflow	**356,750**	**281,161**	**590,755**	**90,007**	**32,051**	**1,350,724**
— Cash outflow	**(356,550)**	**(280,167)**	**(583,253)**	**(87,370)**	**(31,776)**	**(1,339,116)**
Total	**200**	**994**	**7,502**	**2,637**	**275**	**11,608**

	31 December 2021					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Derivatives settled on a gross basis						
— Cash inflow	356,369	441,786	354,719	88,158	751	1,241,783
— Cash outflow	(352,649)	(439,862)	(353,358)	(68,759)	(1,000)	(1,215,628)
Total	3,720	1,924	1,361	19,399	(249)	26,155

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Liquidity risk (Continued)

Off-balance sheet items

The off-balance sheet items primarily include loan commitments, bank acceptances, credit card commitments, guarantee and letters of guarantee and letters of credit. The tables below summarize the amounts of credit commitments by remaining maturity. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date.

	30 June 2022			
	Less than 1 year	**1–5 years**	**Over 5 years**	**Total**
Loan commitments	**96,681**	**133,434**	**154,265**	**384,380**
Bank acceptances	**542,500**	**–**	**–**	**542,500**
Credit card commitments	**780,636**	**–**	**–**	**780,636**
Guarantee and letters of guarantee	**150,360**	**143,967**	**17,337**	**311,664**
Letters of credit	**188,034**	**2,925**	**343**	**191,302**
Total	**1,758,211**	**280,326**	**171,945**	**2,210,482**

	31 December 2021			
	Less than 1 year	1–5 years	Over 5 years	Total
Loan commitments	85,271	177,371	197,258	459,900
Bank acceptances	414,934	–	–	414,934
Credit card commitments	743,594	–	–	743,594
Guarantee and letters of guarantee	153,029	135,151	16,058	304,238
Letters of credit	162,515	2,738	386	165,639
Total	1,559,343	315,260	213,702	2,088,305

47.3 Market risk

Market risk represents the potential loss arising from changes in market rates of interest and foreign exchange, as well as commodity and equity prices. Market risk arises from both the Group's proprietary positions and customer driven transactions, in both cases related to on- and off-balance sheet activities.

The Group is primarily exposed to interest rate risk through corporate, personal banking and treasury operations. Interest rate risk is inherent in many of the Group's businesses and this situation is common among large banks. It fundamentally arises through mismatches between the maturity and re-pricing dates of interest-earning assets and interest-bearing liabilities.

Foreign exchange rate risk of the Group is the potential loss related to changes in foreign exchange rates affecting the translation of foreign currency denominated monetary assets and liabilities. The risk of loss results from movements in foreign currency exchange rates.

The Group is also exposed to commodity risk, primarily related to gold and other precious metals. The risk of loss results from movements in commodity price. The Group manages the risk related to gold price together with foreign exchange rate risk.

The Group has determined that the levels of market risk related to changes in equity prices and commodity prices other than gold, with respect to the related exposures in its trading and investment portfolios, are immaterial.

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Market risk (Continued)

Segregation of Trading Book and Banking Book

To enhance the effectiveness of market risk management, as well as the accuracy of determining the levels of regulatory capital required related to market risk, the Group segregates assets and liabilities, both on- and off-balance sheet, into either the trading book or banking book. The trading book is comprised of financial instruments and commodity positions held for trading or risk hedging. Any other positions are included in the banking book.

Market Risk Management for Trading Book

The Group manages market risk in the trading book through methodologies that include Value at Risk (VaR), monitoring and management of established limits, sensitivity analysis, duration analysis, exposure analysis and stress testing.

Based on changes in the external market and business operations, the Group formulates annual treasury trading, investment business and market risk management policies, and further clarifies the basic policies to be followed for bond trading and derivatives trading, as well as risk control requirements such as exposure and duration. The limit indicator system with VaR as the core, and the market risk management system is used to realize the measurement and monitoring of market risk in the trading book.

The Bank has adopted the historical simulation method, with a confidence level of 99% based on holding period of 1 day and historical data for 250 days to calculate the VaR of the trading books, which includes the head office, domestic branches and overseas branches. Based on the differences between domestic and overseas markets, the Bank selected applicable parameters for model and risk factors in order to reflect the actual market risk levels. The Bank verified the accuracy and reliability of market risk measurements through data analysis, parallel modeling, and back-testing of the market risk measurements.

VaR Analysis for the Trading Book

Bank

		Six months ended 30 June 2022			
	Note	**At the end of the period**	**Average**	**Maximum**	**Minimum**
Interest rate risk		**39**	**40**	**61**	**29**
Exchange rate risk	(1)	**24**	**62**	**179**	**11**
Commodity risk		**27**	**39**	**60**	**27**
Overall VaR		**62**	**86**	**174**	**55**

		Six months ended 30 June 2021			
	Note	At the end of the period	Average	Maximum	Minimum
Interest rate risk		64	76	99	58
Exchange rate risk	(1)	278	172	284	35
Commodity risk		110	105	136	64
Overall VaR		296	205	302	87

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Market risk (Continued)

Market Risk Management for Trading Book *(Continued)*

VaR Analysis for the Trading Book (Continued)

The Bank calculates VaR for its trading book (excluding RMB foreign currency settlement contracts with customers under relevant regulations). The Bank conducts stress testing for its trading book quarterly. The specific areas subject to this testing include the major areas of exposure, such as bonds, interest rate derivatives, foreign exchange derivatives and precious metal. The stress testing uses a range of scenarios, such as interest rate risk, exchange rate risk and precious metal price risk, to assess the potential impact on profit and loss.

(1) VaR related to gold is recognized as a component of foreign exchange rate risk.

Market Risk Management for Banking Book

The Group manages market risk related to the banking book by consistently applying techniques across the Group that include exposure limit management, stress testing, scenario analysis and gap analysis.

Interest Rate Risk Management

Interest rate risk refers to the risk that the adverse changes in interest rate levels and maturity structures will cause the economic value of the banking book or overall income to suffer losses. The Bank's book interest rate risk mainly comes from the mismatch of maturity or repricing periods of interest-sensitive assets and liabilities in the banking book and the inconsistent changes in the benchmark interest rate on which assets and liabilities are based.

Since the People's Bank of China's RMB Loan Prime Rate (LPR) reform, the Bank has implemented relevant policies in accordance with regulatory requirements, promoted business system transformation, modified system loan contracts, improved internal and external interest rate pricing mechanisms, strengthened staff training for branches, comprehensively promoted LPR applications, and basically realized the entire system. The entire process of loan pricing applies LPR pricing. After the People's Bank of China reforms LPR, the connection between the benchmark interest rate on loans and the market interest rate will be closer, and the frequency and amplitude of volatility will increase relatively. To this end, the Bank strengthened the monitoring and prejudgment of the external interest rate environment, adjusted internal and external pricing strategies in a timely manner, optimized the asset and liability product structure and maturity structure, and proactively adjusted the risk structure to reduce the economic value and overall impact of interest rate changes. The adverse impact of earnings. During the reporting period, the Bank's interest rate risk level was generally stable, and all quota indicators were controlled within the scope of regulatory requirements and management objectives.

Foreign Exchange Rate Risk Management

Foreign exchange rate risk relates to the mismatch of foreign currency denominated monetary assets and liabilities, and the potential loss related to changes in foreign exchange rates, which largely arises through operational activities.

The Group performs monitoring and sensitivity analysis of foreign exchange rate risk exposure, manages the mismatch of foreign currency denominated assets and liabilities to effectively manage foreign exchange rate risk exposure within acceptable limits.

Market Risk Exposure Limit Management

Market risk exposure limits of the Group are classified as either directive limits or indicative limits, based on the type of effectiveness, including position limits, stop-loss limits, VaR limits, and stress testing limits.

The Group is committed to continuous improvement of its market risk exposure limit management. The Group establishes exposure limits reflecting its risk appetite and continuously refines the categorization of market risk exposure limits. Further, it regularly monitors, reports, refines, and implements improvements to the market risk exposure limit process.

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Market risk (Continued)

Foreign exchange rate risk

The Group primarily conducts its business activities in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies. The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows:

	30 June 2022				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,554,726	83,377	1,893	29,531	2,669,527
Deposits with banks and other financial institutions	299,349	29,429	3,172	50,438	382,388
Placements with and loans to banks and other financial institutions	223,601	236,071	57,321	24,853	541,846
Derivative financial assets	19,672	8,309	2,042	3,151	33,174
Financial assets held under resale agreements	1,106,640	–	–	–	1,106,640
Loans and advances to customers	17,556,926	353,487	67,501	58,258	18,036,172
Financial assets at fair value through profit or loss	448,570	9,797	577	921	459,865
Debt instrument investments at amortized cost	6,859,034	63,790	9,086	6,747	6,938,657
Other debt instrument and other equity investments at fair value through other comprehensive income	1,313,433	203,358	3,371	47,271	1,567,433
Other financial assets	130,220	6,605	3,029	1,057	140,911
Total financial assets	30,512,171	994,223	147,992	222,227	31,876,613
Borrowings from central banks	(937,703)	–	–	(1,565)	(939,268)
Deposits from banks and other financial institutions	(2,091,635)	(26,027)	(27,532)	(11,043)	(2,156,237)
Placements from banks and other financial institutions	(77,110)	(218,575)	(35,197)	(18,378)	(349,260)
Financial liabilities at fair value through profit or loss	(11,840)	–	–	–	(11,840)
Derivative financial liabilities	(20,091)	(1,663)	(1,019)	(637)	(23,410)
Financial assets sold under repurchase agreements	(5,195)	(6,826)	–	(8,553)	(20,574)
Due to customers	(23,522,974)	(508,872)	(24,937)	(63,071)	(24,119,854)
Debt securities issued	(1,495,187)	(231,323)	(23,956)	(25,065)	(1,775,531)
Other financial liabilities	(257,694)	(14,585)	(2,539)	(1,974)	(276,792)
Total financial liabilities	(28,419,429)	(1,007,871)	(115,180)	(130,286)	(29,672,766)
Net on-balance sheet position	2,092,742	(13,648)	32,812	91,941	2,203,847
Net notional amount of derivatives	286,155	67,113	(6,140)	(88,602)	258,526
Loan commitments and financial guarantee contracts	1,966,429	203,851	1,124	39,078	2,210,482

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Market risk (Continued)

Foreign exchange rate risk *(Continued)*

The Group primarily conducts its business activities in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies. The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows (Continued):

	31 December 2021				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,241,015	61,233	1,142	18,016	2,321,406
Deposits with banks and other financial institutions	148,782	49,451	2,561	17,706	218,500
Placements with and loans to banks and other financial institutions	152,884	218,378	43,509	32,173	446,944
Derivative financial assets	18,053	1,175	1,805	945	21,978
Financial assets held under resale agreements	837,637	–	–	–	837,637
Loans and advances to customers	15,985,155	344,323	60,014	65,011	16,454,503
Financial assets at fair value through profit or loss	446,980	10,933	677	1,651	460,241
Debt instrument investments at amortized cost	6,307,943	49,929	9,991	4,659	6,372,522
Other debt instrument and other equity investments at fair value through other comprehensive income	1,151,033	197,730	2,756	45,761	1,397,280
Other financial assets	69,258	5,315	2,528	780	77,881
Total financial assets	27,358,740	938,467	124,983	186,702	28,608,892
Borrowings from central banks	(745,597)	–	–	(1,616)	(747,213)
Deposits from banks and other financial institutions	(1,572,836)	(17,571)	(24,877)	(7,082)	(1,622,366)
Placements from banks and other financial institutions	(67,315)	(178,291)	(26,842)	(18,657)	(291,105)
Financial liabilities at fair value through profit or loss	(15,860)	–	–	–	(15,860)
Derivative financial liabilities	(14,397)	(2,290)	(2,164)	(486)	(19,337)
Financial assets sold under repurchase agreements	(20,302)	(9,950)	–	(5,781)	(36,033)
Due to customers	(21,373,264)	(459,099)	(32,650)	(42,114)	(21,907,127)
Debt securities issued	(1,175,836)	(229,994)	(36,114)	(65,713)	(1,507,657)
Other financial liabilities	(294,746)	(19,984)	(1,508)	(2,305)	(318,543)
Total financial liabilities	(25,280,153)	(917,179)	(124,155)	(143,754)	(26,465,241)
Net on-balance sheet position	2,078,587	21,288	828	42,948	2,143,651
Net notional amount of derivatives	154,772	8,789	23,045	(35,288)	151,318
Loan commitments and financial guarantee contracts	1,799,496	245,491	10,216	33,102	2,088,305

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

The table below indicates the potential effect on profit before tax and other comprehensive income arising from a 5% appreciation or depreciation of RMB spot and forward foreign exchange rates against a basket of all other currencies on the net positions of foreign currency monetary assets and liabilities and derivative instruments in the consolidated interim statement of financial position of the Group.

	30 June 2022		31 December 2021	
	Profit before tax	**Other comprehensive income**	Profit before tax	Other comprehensive income
5% appreciation	**(4,083)**	**418**	(3,317)	186
5% depreciation	**4,083**	**(418)**	3,317	(186)

The effect on profit before tax and other comprehensive income is calculated based on the assumption that the Group's foreign currency sensitive exposures and foreign currency derivative instruments net position at the end of each reporting period remain unchanged. The Group mitigates its foreign exchange rate risk through active management of its foreign currency exposures and the appropriate use of derivative instruments, based on management expectation of future foreign currency exchange rate movements. Such analysis does not take into account the correlation effect of changes in different foreign currencies, nor any further actions that could be taken by management to mitigate the effect of foreign exchange differences. Therefore, the sensitivity analysis above may differ from actual results occurring through changes in foreign exchange rates.

Interest rate risk

The Group's interest rate risk arises from the mismatches between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities, as well as the inconsistent variations in the benchmark interest rate on which the assets and liabilities are based. The Group's interest-generating assets and interest-bearing liabilities are primarily denominated in RMB. The PBOC stipulated the benchmark interest rate for RMB deposits. The deposit interest rate floating ceiling was removed by the PBOC with effect from 24 December 2015 for commercial banks. Since 16 August 2019, the PBOC established RMB Loan Prime Rate (LPR) to replace RMB benchmark interest rates for loan as a pricing benchmark of new loan whereby financial institutions are in a position to price their loans based on credit risk, commercial and market factors.

The Group manages its interest rate risk by:

— Strengthen the pre-judgment of the situation and analyze the macroeconomic factors that may affect the LPR interest rate, the benchmark deposit interest rate and the market interest rate;

— Strengthen strategy transmission and optimize the repricing term structure of interest-earning assets and interest-bearing liabilities;

— Implement limit management to control the impact of interest rate changes on the economic value and overall income of banking books within the limits.

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Market risk (Continued)

Interest rate risk (Continued)

The tables below summarize the contractual maturity or repricing date, whichever is earlier, of the financial assets and financial liabilities at the end of each reporting period:

	30 June 2022						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,396,884	–	–	–	–	272,643	2,669,527
Deposits with banks and other financial institutions	176,077	61,650	136,151	3,838	–	4,672	382,388
Placements with and loans to banks and other financial institutions	222,837	111,852	180,382	25,187	–	1,588	541,846
Derivative financial assets	–	–	–	–	–	33,174	33,174
Financial assets held under resale agreements	1,075,910	22,885	3,741	–	–	4,104	1,106,640
Loans and advances to customers	3,841,931	2,584,212	10,403,192	721,387	442,221	43,229	18,036,172
Financial assets at fair value through profit or loss	6,338	12,754	83,168	39,459	159,992	158,154	459,865
Debt instrument investments at amortized cost	120,105	130,460	745,209	2,302,251	3,513,990	126,642	6,938,657
Other debt instrument and other equity investments at fair value through other comprehensive income	84,848	135,519	270,403	595,312	460,639	20,712	1,567,433
Other financial assets	–	–	–	–	–	140,911	140,911
Total financial assets	7,924,930	3,059,332	11,822,246	3,687,434	4,576,842	805,829	31,876,613
Borrowings from central banks	(9,782)	(244,904)	(669,099)	–	–	(15,483)	(939,268)
Deposits from banks and other financial institutions	(1,510,452)	(48,068)	(426,869)	(150,262)	(3,000)	(17,586)	(2,156,237)
Placements from banks and other financial institutions	(141,596)	(119,707)	(84,106)	(1,181)	(531)	(2,139)	(349,260)
Financial liabilities at fair value through profit or loss	(142)	–	–	(44)	(207)	(11,447)	(11,840)
Derivative financial liabilities	–	–	–	–	–	(23,410)	(23,410)
Financial assets sold under repurchase agreements	(7,675)	(7,833)	(3,883)	(1,155)	–	(28)	(20,574)
Due to customers	(13,721,094)	(1,096,145)	(4,081,491)	(4,874,570)	(5,090)	(341,464)	(24,119,854)
Debt securities issued	(185,900)	(158,861)	(972,899)	(97,116)	(355,019)	(5,736)	(1,775,531)
Other financial liabilities	–	–	–	–	–	(276,792)	(276,792)
Total financial liabilities	(15,576,641)	(1,675,518)	(6,238,347)	(5,124,328)	(363,847)	(694,085)	(29,672,766)
Interest rate gap	(7,651,711)	1,383,814	5,583,899	(1,436,894)	4,212,995	111,744	2,203,847

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Market risk (Continued)

Interest rate risk (Continued)

The tables below summarize the contractual maturity or repricing date, whichever is earlier, of the financial assets and financial liabilities at the end of each reporting period (Continued):

	31 December 2021						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,032,222	–	–	–	–	289,184	2,321,406
Deposits with banks and other financial institutions	102,908	41,099	56,447	11,503	–	6,543	218,500
Placements with and loans to banks and other financial institutions	182,417	116,368	132,215	14,866	–	1,078	446,944
Derivative financial assets	–	–	–	–	–	21,978	21,978
Financial assets held under resale agreements	809,716	20,666	2,786	–	–	4,469	837,637
Loans and advances to customers	4,316,155	2,451,794	8,483,615	709,928	453,690	39,321	16,454,503
Financial assets at fair value through profit or loss	18,736	16,130	84,068	32,078	156,612	152,617	460,241
Debt instrument investments at amortized cost	57,004	104,328	543,312	2,676,021	2,869,265	122,592	6,372,522
Other debt instrument and other equity investments at fair value through other comprehensive income	64,522	96,496	277,788	566,997	372,294	19,183	1,397,280
Other financial assets	–	–	–	–	–	77,881	77,881
Total financial assets	7,583,680	2,846,881	9,580,231	4,011,393	3,851,861	734,846	28,608,892
Borrowings from central banks	(48,518)	(31,000)	(659,796)	(1,263)	–	(6,636)	(747,213)
Deposits from banks and other financial institutions	(1,127,742)	(138,506)	(138,393)	(205,554)	–	(12,171)	(1,622,366)
Placements from banks and other financial institutions	(106,779)	(99,692)	(78,797)	(3,046)	(1,295)	(1,496)	(291,105)
Financial liabilities at fair value through profit or loss	–	–	–	–	(214)	(15,646)	(15,860)
Derivative financial liabilities	–	–	–	–	–	(19,337)	(19,337)
Financial assets sold under repurchase agreements	(18,838)	(6,871)	(9,147)	(1,157)	–	(20)	(36,033)
Due to customers	(12,926,703)	(1,254,524)	(3,120,029)	(4,240,028)	(16,046)	(349,797)	(21,907,127)
Debt securities issued	(94,101)	(294,188)	(701,558)	(114,560)	(294,999)	(8,251)	(1,507,657)
Other financial liabilities	–	–	–	–	–	(318,543)	(318,543)
Total financial liabilities	(14,322,681)	(1,824,781)	(4,707,720)	(4,565,608)	(312,554)	(731,897)	(26,465,241)
Interest rate gap	(6,739,001)	1,022,100	4,872,511	(554,215)	3,539,307	2,949	2,143,651

The following table illustrates the potential pre-tax impact, of a parallel upward or downward shift of 100 basis points in relevant interest rate curves on the Group's net interest income and other comprehensive income for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparalleled yield curve movements.

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration.

(Amounts in millions of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Market risk (Continued)

Interest rate risk *(Continued)*

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as other debt instrument investments and other equity investments at fair value through other comprehensive income held, whose fair value changes are recorded as an element of other comprehensive income.

	30 June 2022		31 December 2021	
	Net interest income	Other comprehensive income	Net interest income	Other comprehensive income
+100 basis points	(40,857)	(53,310)	(37,792)	(39,264)
−100 basis points	40,857	53,310	37,792	39,264

The assumptions do not reflect actions that might be taken under the Group's capital and interest rate risk management policy to mitigate changes to the Group's interest rate risk. Therefore the above analysis may differ from the actual situation.

In addition, the presentation of interest rate sensitivity above is for illustration purposes only, showing the potential impact on net interest income and other comprehensive income of the Group under different parallel yield curve movements, relative to their position at period-end, excluding the derivative positions.

47.4 Country Risk

Country risk represents the risk due to changes and incidents occurred in the economy, politics and society of a specific country or region, which results in the borrowers or debtors in that country or region incapable of or unwilling to pay their debts owed to the Bank or otherwise leads to business losses or other losses to the Bank in that country or region.

According to the regulatory requirements of CBIRC, the Group managed country risk through tools and approaches such as country risk rating, limit approval, exposure analysis and stress testing. In the meanwhile, the Group fully considered the impact of country risk on asset quality, accurately identified, reasonably assessed and prudently estimated the asset loss that may be caused by country risk. Corresponding provisions were also made for country risk impairment.

47.5 Insurance risk

The Group engages in its insurance business primarily in Chinese mainland. Insurance risk refers to the financial impact resulting from the unexpected occurrence of insured events. These risks are actively managed by the Group through effective sales management, underwriting control, reinsurance management and claim management. Through effective sales management, the risk of mis-selling could be reduced and the accuracy of information used for underwriting is improved. Through underwriting control, risk of adverse selection could be reduced and moreover differential pricing policy based on the level of each kind of risk could be utilized. Through reinsurance, the Group's insurance capacity could be enhanced and targeted risks could be mitigated. Effective claims management is designed to ensure that insurance payments are controlled according to established criteria.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. The Group conducts experience analysis of mortality rate and surrender rate, in order to improve its risk assessment and as a basis for reasonable estimates.

48 CAPITAL MANAGEMENT

The Group's capital management objectives are as follows:

— maintain an adequate capital base to support the development of its business;

— support the Group's financial stability and profitable growth;

— allocate capital through an efficient and risk based approach to optimize risk-adjusted return to shareholders; and

— safeguard the long-term sustainability of the Group's franchise so that it can continue to provide sufficient shareholder returns and benefits for other stakeholders.

The "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC in 2012 includes, among other things, requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

— minimum regulatory requirements for Common Equity Tier-one Capital Adequacy Ratio, Tier-one Capital Adequacy Ratio and Capital Adequacy Ratio are 5%, 6% and 8%, respectively;

— capital conservation buffer requires additional 2.5% of Common Equity Tier-one Capital Adequacy Ratio;

— additional capital surcharge for systemically important banks requires additional 1% of Common Equity Tier-one Capital Adequacy Ratio;

— should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

In April 2014, the CBIRC officially approved the Group to adopt advanced capital management approach. Within the scope of the approval, the Internal Ratings-Based approach is adopted to Credit Risk-weighted Assets for both retail and non-retail risk exposures, and the Standardized approach for both Operational Risk-weighted Assets and Market Risk-weighted Assets. The CBIRC will determine the parallel run period for the Group, which should last for at least three years. During the parallel run period, the Group should calculate its Capital Adequacy Ratios under the advanced approach and the non-advanced approach, and should conform to the capital floor requirements as stipulated in the "Capital Rules for Commercial Banks (Provisional)".

In January 2017, the CBIRC has officially approved the Group to adopt the Internal Models approach to measure its Market Risk-weighted Assets for qualified risk exposures.

Capital adequacy and the utilization of regulatory capital are closely monitored by the Group's management in accordance with the guidelines developed by the Basel Committee and relevant regulations promulgated by the CBIRC. Required information related to capital levels and utilization is filed quarterly with the CBIRC.

(Amounts in millions of Renminbi, unless otherwise stated)

48 CAPITAL MANAGEMENT (Continued)

The Group's capital adequacy ratio calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" ("the Regulation") issued by the CBIRC as at the end of the reporting period is as follows:

	Notes	30 June 2022	31 December 2021
Common Equity Tier-one Capital Adequacy Ratio	(1)	**11.11%**	11.44%
Tier-one Capital Adequacy Ratio	(1)	**13.28%**	13.46%
Capital Adequacy Ratio	(1)	**17.09%**	17.13%
Common Equity Tier-one Capital	(2)	**2,108,774**	2,053,737
Deductible Items from Common Equity Tier-one Capital	(3)	**(11,409)**	(11,257)
Net Common Equity Tier-one Capital		**2,097,365**	2,042,480
Additional Tier-one Capital	(4)	**409,878**	359,881
Net Tier-one Capital		**2,507,243**	2,402,361
Tier-two Capital	(5)	**719,175**	655,506
Net Capital		**3,226,418**	3,057,867
Risk-weighted Assets	(6)	**18,880,455**	17,849,566

Pursuant to the "Capital Rules for Commercial Banks (Provisional)":

(1) The scope of consolidation related to the calculation of the Group's Capital Adequacy Ratios includes Domestic Institutions, Overseas Institutions and affiliated financial subsidiaries specified in the Regulation.

The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.

(2) The Group's Common Equity Tier-one Capital includes: ordinary share capital, capital reserve (subject to regulatory limitations), surplus reserve, general reserve, retained earnings, non-controlling interests (to the extent permitted in the Common Equity Tier-one Capital under the Regulation), and the foreign currency translation reserve, etc.

(3) The Group's Deductible Items from Common Equity Tier-one Capital include: other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.

(4) The Group's Additional Tier-one Capital includes: other equity instruments and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).

(5) The Group's Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).

(6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

49 FAIR VALUE OF FINANCIAL INSTRUMENTS

The majority of the Group's assets and liabilities in the condensed consolidated interim statement of financial position are financial assets and financial liabilities. Fair value measurement of non-financial assets and non-financial liabilities do not have a material impact on the Group's financial position and operations, taken as a whole.

The Group does not have any financial assets or financial liabilities subject to non-recurring fair value measurements for the six months ended 30 June 2022 and the year ended 31 December 2021.

49.1 Valuation technique, input and process

The fair value of financial assets and financial liabilities are determined as follows:

— If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively;

— If not traded in active markets, fair values of financial assets and financial liabilities are determined by using valuation techniques. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models.

The Group has established an independent valuation process for financial assets and financial liabilities. The Financial Accounting Department of head office establishes the valuation models for financial assets and financial liabilities of head office and its branches in China and independently implements the valuation on a regular basis; and the Risk Management Department is responsible for validating the valuation model, the Operations Department records the accounting for these items. Overseas branches and sub-branches designate departments or personnel that are independent from the front trading office to perform valuation in accordance with the local regulatory requirements and their own department settings.

The Board of Directors shall be responsible for establishing and improving the internal control system related to the valuation of financial instruments and approving valuation policies.

For the six months ended 30 June 2022, there was no significant change in the valuation techniques or inputs used to determine fair value measurements.

49.2 Fair value hierarchy

The level in which fair value measurement is categorized is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3: fair value measurements are not based on observable market data.

(Amounts in millions of Renminbi, unless otherwise stated)

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

49.3 Financial assets and financial liabilities not measured at fair value in the condensed consolidated interim statement of financial position

The tables below summarize the carrying amounts and fair values of those financial assets and financial liabilities not measured in the condensed consolidated interim statement of financial position at their fair value. Financial assets and financial liabilities for which the carrying amounts approximate fair value, such as balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, receivable from the MOF, special government bond, borrowings from central banks, deposits and placements from banks and other financial institutions, financial assets sold under repurchase agreements, due to customers, certificates of deposit issued and interbank certificate of deposits issued and commercial papers issued are not included in the tables below.

	30 June 2022				
			Among:		
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Debt instrument investments at amortized cost (excluding receivable from the MOF and special government bond)	**6,514,681**	**6,678,462**	**73,426**	**6,506,177**	**98,859**
Financial liabilities					
Debt securities issued	**499,460**	**509,517**	**61,523**	**447,994**	**–**

	31 December 2021				
			Among:		
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Debt instrument investments at amortized cost (excluding receivable from the MOF and special government bond)	5,953,781	6,107,442	32,976	5,961,771	112,695
Financial liabilities					
Debt securities issued	428,856	435,680	47,865	387,815	–

(Amounts in millions of Renminbi, unless otherwise stated)

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

49.4 Financial assets and financial liabilities measured at fair value in the condensed consolidated interim statement of financial position

The tables below summarize the fair values of the financial assets and financial liabilities measured in the condensed consolidated interim statement of financial position at their fair value:

	30 June 2022			
	Level 1	Level 2	Level 3	Total
Derivative financial assets				
— Exchange rate derivatives	–	24,576	–	24,576
— Interest rate derivatives	–	2,126	–	2,126
— Precious metal contracts	–	6,472	–	6,472
Subtotal	–	33,174	–	33,174
Loans and advances to customers				
— Discounted bills and forfeiting	–	726,133	–	726,133
Subtotal	–	726,133	–	726,133
Financial investments				
Financial assets at fair value through profit or loss				
— Held for trading				
Bonds	5,487	114,074	–	119,561
Precious metal contracts	–	18,735	–	18,735
Equity	5,855	526	–	6,381
Fund and others	4,377	100	–	4,477
— Other financial assets at fair value through profit or loss				
Bonds	–	161,520	607	162,127
Equity	8,958	11,722	78,190	98,870
Fund and others	203	24,451	23,825	48,479
— Financial assets designated at fair value through profit or loss				
Bonds	1,196	39	–	1,235
Subtotal	26,076	331,167	102,622	459,865
Other debt instrument and other equity investments at fair value through other comprehensive income				
— Debt instruments				
Bonds	193,188	1,354,820	–	1,548,008
Others	–	14,862	–	14,862
— Equity instruments	1,090	–	3,473	4,563
Subtotal	194,278	1,369,682	3,473	1,567,433
Total assets	220,354	2,460,156	106,095	2,786,605

(Amounts in millions of Renminbi, unless otherwise stated)

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

49.4 Financial assets and financial liabilities measured at fair value in the condensed consolidated interim statement of financial position (Continued)

The tables below summarize the fair values of the financial assets and financial liabilities measured in the condensed consolidated interim statement of financial position at their fair value (Continued):

	30 June 2022			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Held for trading				
— Financial liabilities related to precious metals	–	(11,447)	–	(11,447)
Financial liabilities designated at fair value through profit or loss				
— Liabilities of the controlled structured entities	–	–	(251)	(251)
— Others	–	(142)	–	(142)
Subtotal	–	(11,589)	(251)	(11,840)
Derivative financial liabilities				
— Exchange rate derivatives	–	(20,507)	–	(20,507)
— Interest rate derivatives	–	(1,053)	–	(1,053)
— Precious metal contracts	–	(1,850)	–	(1,850)
Subtotal	–	(23,410)	–	(23,410)
Due to customers				
Due to customers measured at fair value	–	(39,580)	–	(39,580)
Total liabilities	–	(74,579)	(251)	(74,830)

(Amounts in millions of Renminbi, unless otherwise stated)

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

49.4 Financial assets and financial liabilities measured at fair value in the condensed consolidated interim statement of financial position (Continued)

The tables below summarize the fair values of the financial assets and financial liabilities measured in the condensed consolidated interim statement of financial position at their fair value (Continued):

	31 December 2021			
	Level 1	Level 2	Level 3	Total
Derivative financial assets				
— Exchange rate derivatives	–	20,116	–	20,116
— Interest rate derivatives	–	1,141	–	1,141
— Precious metal contracts	–	721	–	721
Subtotal	–	21,978	–	21,978
Loans and advances to customers				
— Discounted bills and forfeiting	–	502,748	–	502,748
Subtotal	–	502,748	–	502,748
Financial investments				
Financial assets at fair value through profit or loss				
— Held for trading				
Bonds	8,225	119,912	–	128,137
Precious metal contracts	–	21,389	–	21,389
Equity	3,948	1,331	–	5,279
Fund and others	4,261	316	–	4,577
— Other financial assets at fair value through profit or loss				
Bonds	–	154,585	274	154,859
Equity	13,501	12,063	79,112	104,676
Fund and others	251	19,305	19,455	39,011
— Financial assets designated at fair value through profit or loss				
Bonds	2,273	40	–	2,313
Subtotal	32,459	328,941	98,841	460,241
Other debt instrument and other equity investments at fair value through other comprehensive income				
— Debt instruments				
Bonds	162,072	1,213,723	–	1,375,795
Others	–	16,896	–	16,896
— Equity instruments	1,165	–	3,424	4,589
Subtotal	163,237	1,230,619	3,424	1,397,280
Total assets	195,696	2,084,286	102,265	2,382,247

(Amounts in millions of Renminbi, unless otherwise stated)

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

49.4 Financial assets and financial liabilities measured at fair value in the condensed consolidated interim statement of financial position (Continued)

The tables below summarize the fair values of the financial assets and financial liabilities measured in the condensed consolidated interim statement of financial position at their fair value (Continued):

	31 December 2021			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Held for trading				
— Financial liabilities related to precious metals	–	(15,646)	–	(15,646)
Financial liabilities designated at fair value through profit or loss				
— Liabilities of the controlled structured entities	–	–	(214)	(214)
Subtotal	–	(15,646)	(214)	(15,860)
Derivative financial liabilities				
— Exchange rate derivatives	–	(14,734)	–	(14,734)
— Interest rate derivatives	–	(2,366)	–	(2,366)
— Precious metal contracts	–	(2,237)	–	(2,237)
Subtotal	–	(19,337)	–	(19,337)
Due to customers				
Due to customers measured at fair value	–	(52,306)	–	(52,306)
Total liabilities	–	(87,289)	(214)	(87,503)

Substantially all financial instruments classified within Level 2 of the fair value hierarchy primarily include debt investments, currency forwards, currency swaps, interest rate swaps, currency options, precious metal contracts, and structured deposit measured at fair value, etc. Fair value of debt investments denominated in RMB is determined based upon the valuation published by the China Central Depository & Clearing Co., Ltd. Fair value of debt investments denominated in foreign currencies is determined based upon the valuation results published by Bloomberg. The fair value of currency forwards, currency swaps, interest rate swaps, currency options and structured deposit measured at fair value are calculated by applying discounted cash flow analysis or the Black Scholes Pricing Model. The fair value of precious metal contracts that are related to the Group's trading activities is determined with reference to the relevant observable market parameters. All significant inputs are observable in the market.

(Amounts in millions of Renminbi, unless otherwise stated)

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

49.4 Financial assets and financial liabilities measured at fair value in the condensed consolidated interim statement of financial position (Continued)

Level 3 financial assets of the Group mainly represented unlisted equity investments. As not all of the inputs needed to estimate the fair value of these assets and liabilities are observable, the Group classified these investment products within Level 3 of the fair value measurement hierarchy. The significant unobservable inputs related to these assets and liabilities are those parameter relating to credit risk, liquidity and discount rate. Management has made assumptions on unobservable inputs based on observed indicators of impairment, significant changes in yield, external credit ratings and comparable credit spreads, but the fair value of these underlying assets and liabilities could be different from those disclosed.

The reconciliation of Level 3 classified financial assets and financial liabilities presented at fair value in the condensed consolidated interim statement of financial position is as follows:

	Six months ended 30 June 2022			
	Financial assets at fair value through profit or loss	Other debt instrument and other equity investments at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Due to customers measured at fair value
1 January 2022	98,841	3,424	(214)	–
Purchases	12,723	36	–	–
Settlements/disposals	(8,766)	(1)	–	–
Total (losses)/gains recognized in				
— Profit or loss	(176)	–	(37)	–
— Other comprehensive income	–	14	–	–
30 June 2022	102,622	3,473	(251)	–
Change in unrealized profit or loss for the period included in profit or loss for assets/liabilities held at the end of the period	293	–	–	–

(Amounts in millions of Renminbi, unless otherwise stated)

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

49.4 Financial assets and financial liabilities measured at fair value in the condensed consolidated interim statement of financial position (Continued)

	2021			
	Financial assets at fair value through profit or loss	Other debt instrument and other equity investments at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Due to customers measured at fair value
1 January 2021	102,883	21,119	(9,770)	(73,118)
Purchases	32,827	1,792	–	–
Settlements/disposals/transfer out of level 3	(37,436)	(19,277)	9,570	73,553
Total gains/(losses) recognized in				
— Profit or loss	567	659	(14)	(435)
— Other comprehensive income	–	(869)	–	–
31 December 2021	98,841	3,424	(214)	–
Change in unrealized profit or loss for the period included in profit or loss for assets/liabilities held at the end of the year	783	–	–	–

In Level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the period are presented in net gain on financial investments (Note 9) of the condensed consolidated interim income statement.

50 EVENTS AFTER THE REPORTING PERIOD

50.1 The distribution of dividend on preference shares

A cash dividend at the dividend rate of 5.32% per annum related to the first tranche of preference shares amounting to RMB2,128 million in total was approved at the Board of Directors' Meeting held on 29 August 2022 and will be distributed on 7 November 2022.

50.2 The distribution payment of undated capital bonds

A distribution payment related to the Agricultural Bank of China Limited 2019 Undated Additional Tier 1 Capital Bonds (Series 1), at the distribution rate of 4.39% with the total amount of RMB85 billion, amounting to RMB3,732 million in total was distributed on 20 August 2022.

A distribution payment related to the Agricultural Bank of China Limited 2020 Undated Additional Tier 1 Capital Bonds (Series 2), at the distribution rate of 4.50% with the total amount of RMB35 billion, amounting to RMB1,575 million in total was distributed on 24 August 2022.

51 COMPARATIVES

Certain comparative figures in the notes have been adjusted to conform with changes in disclosures in current period.

According to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Banking (Disclosure) Rules, the Group discloses the following supplementary information:

1. LIQUIDITY COVERAGE RATIOS

	Three months ended	
	30 June 2022	**31 March 2022**
Average Liquidity Coverage Ratio	**135.50%**	**125.60%**

The liquidity coverage ratios were also in accordance with the Rules on Liquidity Risk Management of Commercial Banks issued by the CBIRC and applicable calculation requirements, and based on the data determined under the PRC GAAP.

2. CURRENCY CONCENTRATIONS

	Equivalent in millions of RMB			
	USD	**HKD**	**Other**	**Total**
30 June 2022				
Spot assets	**999,497**	**148,063**	**219,477**	**1,367,037**
Spot liabilities	**(1,006,208)**	**(114,161)**	**(129,649)**	**(1,250,018)**
Forward purchases	**1,163,539**	**31,233**	**69,693**	**1,264,465**
Forward sales	**(1,118,447)**	**(37,374)**	**(158,481)**	**(1,314,302)**
Net options position	**20,215**	**–**	**184**	**20,399**
Net long position	**58,596**	**27,761**	**1,224**	**87,581**
Net structural position	**4,144**	**3,873**	**4,798**	**12,815**

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
31 December 2021				
Spot assets	948,956	125,183	186,204	1,260,343
Spot liabilities	(914,889)	(121,991)	(143,268)	(1,180,148)
Forward purchases	1,169,736	46,303	85,630	1,301,669
Forward sales	(1,165,736)	(24,260)	(121,580)	(1,311,576)
Net options position	15,263	–	49	15,312
Net long position	53,330	25,235	7,035	85,600
Net structural position	4,766	7,664	5,515	17,945

(Amounts in millions of Renminbi, unless otherwise stated)

3. OVERDUE AND RESCHEDULED ASSETS

(1) Gross amount of overdue loans and advances to customers

	30 June 2022	31 December 2021
Overdue		
within 3 months	**74,315**	74,359
between 3 and 6 months	**24,051**	29,079
between 6 and 12 months	**36,591**	23,768
over 12 months	**52,611**	57,715
Total	**187,568**	184,921
Percentage of overdue loans and advances to customers in total loans		
within 3 months	**0.40%**	0.43%
between 3 and 6 months	**0.13%**	0.17%
between 6 and 12 months	**0.19%**	0.14%
over 12 months	**0.28%**	0.34%
Total	**1.00%**	1.08%

(2) Rescheduled loans and advances to customers

	30 June 2022	31 December 2021
Total rescheduled loans and advances to customers	**18,669**	18,307
Including: rescheduled loans and advances to customers overdue for not more than 3 months	**607**	656
Percentage of rescheduled loans and advances to customers overdue for not more than 3 months to total loans	**0.00%**	0.00%

(3) Gross amount of overdue placements with and loans to banks and other financial institutions.

The overdue amounts in the Group's placements with and loans to banks and other financial institutions as at 30 June 2022 and 31 December 2021 were insignificant.

To the Shareholders of Agricultural Bank of China Limited

(Incorporated in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of Agricultural Bank of China Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 200 to 358, which comprise: the consolidated statement of financial position as at 31 December 2021; the consolidated statement of profit or loss; the consolidated statement of comprehensive income; the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the IASB. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("the Code"), together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of expected credit losses for loans and advances to customers	
Refer to the accounting policy in "Note II 8.5 Impairment of financial instruments, Note III 2 Measurement of the expected credit loss allowance", and "Note IV 8 Credit impairment losses, Note IV 17 Loans and advances to customers, Note IV 44.1 Credit risk" to the consolidated financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group uses an expected credit loss ("ECL") model to measure the loss allowance for loans and advances to customers in accordance with International Financial Reporting Standard 9, Financial instruments. The determination of loss allowance for loans and advances to customers using the expected credit loss model is subject to the application of a number of key parameters and assumptions, including the credit risk staging, probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Extensive management judgment is involved in the selection of those parameters and the application of the assumptions. In particular, the determination of the loss allowance is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The ECL for corporate loans and advances are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The ECL for personal loans and advances are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors.	Our audit procedures to assess ECL for loans and advances to customers included the following: • with the assistance of KPMG's IT specialists, understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and advances to customers, the credit risk staging process and the measurement of ECL for loans and advances to customers. • with the assistance of KPMG's financial risk specialists, assessing the appropriateness of the ECL model in determining loss allowances and the appropriateness of the key parameters and assumptions in the model, which included credit risk staging, probability of default, loss given default, exposure at default, adjustments for forward-looking information and other adjustments, and assessing the appropriateness of related key management judgment. • for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters by comparing with prior period and considered the consistency of judgement. • comparing the macroeconomic forward-looking information used in the model with market information to assess whether they were aligned with market and economic development. • assessing the completeness and accuracy of data used in the ECL model. For key internal data, we compared the total balance of the loans and advances' list used by management to assess the ECL with the general ledger to check the completeness of the data. We also selected samples to compare individual loan and advance information with the underlying agreements and other related documentation, to check the accuracy of the data and samples to check the accuracy of external data by comparing them with public resources.

Measurement of expected credit losses for loans and advances to customers (Continued)

Refer to the accounting policy in "Note II 8.5 Impairment of financial instruments, Note III 2 Measurement of the expected credit loss allowance", and "Note IV 8 Credit impairment losses, Note IV 17 Loans and advances to customers, Note IV 44.1 Credit risk" to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include the financial situation of the borrower, the security type, the seniority of the claim, the recoverable amount of collateral, and other repayment sources of the borrower. Management refers to valuation reports of collateral issued by qualified third party valuers and considers the influence of various factors including the market price, status and use when assessing the value of collaterals. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral. We identified the measurement of ECL of loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Group.	• for key parameters used in the ECL model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved KPMG's IT specialists to assess the logics and compilation of the loans and advances' overdue information on a sample basis. • evaluating the reasonableness of management's assessment on whether the credit risk of the loan and advance has, or has not, increased significantly since initial recognition and whether the loan and advance is credit-impaired by selecting risk-based samples. We analysed the portfolio by industry sector to select samples in industries more vulnerable to the current economic situation with reference to other borrowers with potential credit risk. We checked loan overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses, to check the credit risk status of the borrower, and the reasonableness of the loans' credit risk stage. • evaluating the reasonableness of loss given default for selected samples of corporate loans and advances to customers that are credit-impaired, by checking the financial situation of the borrower, the security type, the seniority of the claim, the recoverable amount of collateral, and other repayment sources of the borrower. Evaluating management's assessment of the value of any collateral, by comparison with evaluation result based on the category, status, use of the collateral and market prices. For valuation reports of collateral issued by qualified third party, we evaluated the competence, professional quality and objectivity of the external appraiser. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, challenged the viability of the Group's recovery plans; based on the above work, we selected samples and assessed the accuracy of calculation for loans and advances' credit losses by using the ECL model.

Measurement of expected credit losses for loans and advances to customers (Continued)	
Refer to the accounting policy in "Note II 8.5 Impairment of financial instruments, Note III 2 Measurement of the expected credit loss allowance", and "Note IV 8 Credit impairment losses, Note IV 17 Loans and advances to customers, Note IV 44.1 Credit risk" to the consolidated financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
	• performing retrospective review of expected credit loss model components and significant assumptions, to back-test past estimates element against actual outcomes, and assess whether the results indicate possible management bias on loss estimation. • assessing the reasonableness of the disclosures in the financial statements in relation to expected credit losses for loans and advances against prevailing accounting standards.

Measurement of interests in and consolidation of structured entities	
Refer to the accounting policy in "Note II 2 Consolidation, Note III 5 Consolidation of structured entities", and "Note IV 41 Structured entities" to the consolidated financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire an ownership interest in a structured entity, through initiating, investing or retaining shares in a Wealth Management Products ("WMPs"), securitization products, funds, trust investment plans, debt investment plans and asset management plans. The Group may also retain partial interests in derecognised assets due to guarantees or securitisation structures. In determining whether the Group retain any partial interests in a structured entity or should consolidate a structured entity, management is required to consider the power it possesses, its exposure to variable returns, and its ability to use its power to affect returns. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions. We identified the recognition of interests in and consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and because of the judgment exercised by management in the qualitative assessment of the terms and the nature of each entity.	Our audit procedures to assess the measurement of interests in and consolidation of structured entities included the following: • assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over measurement of interests in and consolidation of structured entities. • selecting significant structured entities of each key product type and performing the following procedures: — inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgment over whether the Group has the ability to exercise power over the structured entity; — inspecting the risk and reward structure of the structured entity, including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns, to assess management's judgment as to the exposure, or rights, to variable returns from the Group's involvement in such an entity; — inspecting management's analysis of the structured entity, including qualitative analysis and the calculation of the magnitude and variability associated with the Group's economic interests in the structured entity, to assess management's judgment over the Group's ability to affect its own returns from the structured entity; — assessing management's judgment over whether the structured entity should be consolidated or not. • assessing the reasonableness of the disclosures in the financial statements in relation to the measurement of interests in and consolidation of structured entities against prevailing accounting standards.

Measurement of financial instruments' fair value	
Refer to the accounting policy in "Note II 8.3 Determination of fair value, Note III 3 Fair value of financial instruments", and "Note IV 46 Fair value of financial instruments" to the consolidated financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
Financial instruments carried at fair value account for a significant part of the Group's assets and liabilities. The effect of fair value adjustments of financial instruments may impact either the profit or loss or other comprehensive income. The valuation of the Group's financial instruments, held at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data, in particular for level 1 and level 2 financial instruments in the fair value hierarchy, the valuation models for which use quoted market prices and observable inputs, respectively. Where one or more significant unobservable inputs, such as credit risk, liquidity and discount rate, are involved in the valuation techniques, as in the case of level 3 financial instruments, then estimates need to be developed which can involve extensive management judgments. We identified measurement of financial instruments' fair value as a key audit matter because of the assets and liabilities measured at fair value are material to the group and the degree of complexity involved in the valuation techniques and the degree of judgment exercised by management in determining the inputs used in the valuation models.	Our audit procedures to assess measurement of financial instruments' fair value included the following: • assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the model building, model validation, independent valuation and front office and back office reconciliations for financial instruments. • assessing the level 1 fair value of financial instruments, on a sample basis, by comparing the fair value applied by the Group with publicly available market data. • for level 2 and level 3 financial instruments, on a sample basis, involving KPMG's valuation specialists to assess whether the valuation method selected is appropriate with reference to the prevailing accounting standards. Our procedures included: developing parallel models, obtaining inputs independently and verifying the inputs; assessing the appropriate application of fair value adjustment that form an integral part of fair value, by inquiring of management about any changes in the fair value adjustment methodologies and assessing the appropriateness of the inputs applied; and comparing our valuation results with that of the Group. • assessing the reasonableness of the disclosures in the consolidated financial statements in relation to fair value of financial instruments against prevailing accounting standards, including fair value hierarchy information and sensitivity to key inputs.

Information other than the Consolidated Financial Statements and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wong Yuen Shan.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2022

Consolidated Statement of Profit or Loss

for the year ended 31 December 2021
(Amounts in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
	IV	**2021**	2020
Interest income	1	**1,008,014**	930,932
Interest expense	1	**(430,027)**	(385,853)
Net interest income	1	**577,987**	545,079
Fee and commission income	2	**98,721**	91,166
Fee and commission expense	2	**(18,392)**	(16,621)
Net fee and commission income	2	**80,329**	74,545
Net trading gain	3	**14,241**	16,405
Net gain/(loss) on financial investments	4	**15,035**	(7,312)
Net gain on derecognition of financial assets measured at amortized cost		**11**	1
Other operating income	5	**34,143**	30,614
Operating income		**721,746**	659,332
Operating expenses	6	**(260,275)**	(229,897)
Credit impairment losses	8	**(165,886)**	(164,699)
Impairment losses on other assets		**(114)**	(204)
Operating profit		**295,471**	264,532
Share of results of associates and joint ventures		**409**	518
Profit before tax		**295,880**	265,050
Income tax expense	9	**(53,944)**	(48,650)
Profit for the year		**241,936**	216,400
Attributable to:			
Equity holders of the Bank		**241,183**	215,925
Non-controlling interests		**753**	475
		241,936	216,400
Earnings per share attributable to the ordinary equity holders of the Bank (expressed in RMB yuan per share)			
— Basic and diluted	11	**0.65**	0.59

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2021
(Amounts in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2021	2020
Profit for the year	**241,936**	216,400
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on other debt instrument investments at fair value through other comprehensive income	**8,504**	(8,855)
Loss allowance on other debt instrument investments at fair value through other comprehensive income	**3,572**	3,754
Income tax impact for fair value changes and loss allowance on other debt instrument investments at fair value through other comprehensive income	**(2,865)**	1,440
Foreign currency translation differences	**(1,724)**	(2,591)
Subtotal	**7,487**	(6,252)
Items that will not be reclassified subsequently to profit or loss:		
Fair value changes on other equity investments designated at fair value through other comprehensive income	**(282)**	(114)
Income tax impact for fair value changes on other equity investments designated at fair value through other comprehensive income	**115**	29
Subtotal	**(167)**	(85)
Other comprehensive income, net of tax	**7,320**	(6,337)
Total comprehensive income for the year	**249,256**	210,063
Total comprehensive income attributable to:		
Equity holders of the Bank	**248,399**	209,637
Non-controlling interests	**857**	426
	249,256	210,063

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2021
(Amounts in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
	IV	**2021**	2020
Assets			
Cash and balances with central banks	12	**2,321,406**	2,437,275
Deposits with banks and other financial institutions	13	**218,500**	434,185
Precious metals		**96,504**	87,357
Placements with and loans to banks and other financial institutions	14	**446,944**	546,948
Derivative financial assets	15	**21,978**	61,937
Financial assets held under resale agreements	16	**837,637**	816,206
Loans and advances to customers	17	**16,454,503**	14,552,433
Financial investments	18		
Financial assets at fair value through profit or loss		**460,241**	583,069
Debt instrument investments at amortized cost		**6,372,522**	5,684,220
Other debt instrument and other equity investments at fair value through other comprehensive income		**1,397,280**	1,555,370
Investment in associates and joint ventures	20	**8,297**	8,865
Property and equipment	21	**153,299**	151,154
Goodwill		**1,381**	1,381
Deferred tax assets	22	**143,027**	133,355
Other assets	23	**135,636**	151,292
Total assets		**29,069,155**	27,205,047
Liabilities			
Borrowings from central banks	24	**747,213**	737,161
Deposits from banks and other financial institutions	25	**1,622,366**	1,394,516
Placements from banks and other financial institutions	26	**291,105**	390,660
Financial liabilities at fair value through profit or loss	27	**15,860**	27,817
Derivative financial liabilities	15	**19,337**	65,282
Financial assets sold under repurchase agreements	28	**36,033**	109,195
Due to customers	29	**21,907,127**	20,372,901
Debt securities issued	30	**1,507,657**	1,371,845
Deferred tax liabilities	22	**655**	334
Other liabilities	31	**500,443**	524,590
Total liabilities		**26,647,796**	24,994,301

Consolidated Statement of Financial Position (Continued)

as at 31 December 2021
(Amounts in millions of Renminbi, unless otherwise stated)

	Note IV	As at 31 December 2021	2020
Equity			
Ordinary shares	32	**349,983**	349,983
Other equity instruments	33	**359,872**	319,875
Preference shares		**79,899**	79,899
Perpetual bonds		**279,973**	239,976
Capital reserve	34	**173,556**	173,556
Investment revaluation reserve	35	**34,927**	25,987
Surplus reserve	36	**220,792**	196,071
General reserve	37	**351,616**	311,449
Retained earnings		**925,955**	828,240
Foreign currency translation reserve		**(2,096)**	(372)
Equity attributable to equity holders of the Bank		**2,414,605**	2,204,789
Non-controlling interests		**6,754**	5,957
Total equity		**2,421,359**	2,210,746
Total equity and liabilities		**29,069,155**	27,205,047

Approved and authorized for issue by the Board of Directors on 30 March 2022.

Chairman

Vice Chairman

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021
(Amounts in millions of Renminbi, unless otherwise stated)

		Total equity attributable to equity holders of the Bank										
	Note IV	Ordinary shares	Other equity instruments	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Subtotal	Non-controlling interests	Total
As at 31 December 2020		**349,983**	**319,875**	**173,556**	**25,987**	**196,071**	**311,449**	**828,240**	**(372)**	**2,204,789**	**5,957**	**2,210,746**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**241,183**	**–**	**241,183**	**753**	**241,936**
Other comprehensive income		**–**	**–**	**–**	**8,940**	**–**	**–**	**–**	**(1,724)**	**7,216**	**104**	**7,320**
Total comprehensive income for the year		**–**	**–**	**–**	**8,940**	**–**	**–**	**241,183**	**(1,724)**	**248,399**	**857**	**249,256**
Capital contribution from equity holders	33	**–**	**39,997**	**–**	**–**	**–**	**–**	**–**	**–**	**39,997**	**37**	**40,034**
Appropriation to surplus reserve	36	**–**	**–**	**–**	**–**	**24,721**	**–**	**(24,721)**	**–**	**–**	**–**	**–**
Appropriation to general reserve	37	**–**	**–**	**–**	**–**	**–**	**40,167**	**(40,167)**	**–**	**–**	**–**	**–**
Dividends paid to ordinary equity holders	10	**–**	**–**	**–**	**–**	**–**	**–**	**(64,782)**	**–**	**(64,782)**	**–**	**(64,782)**
Dividends paid to other equity instrument holders	10	**–**	**–**	**–**	**–**	**–**	**–**	**(13,798)**	**–**	**(13,798)**	**–**	**(13,798)**
Dividends paid to non-controlling equity holders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(97)**	**(97)**
As at 31 December 2021		**349,983**	**359,872**	**173,556**	**34,927**	**220,792**	**351,616**	**925,955**	**(2,096)**	**2,414,605**	**6,754**	**2,421,359**
As at 31 December 2019		349,983	199,886	173,556	29,684	174,910	277,016	741,101	2,219	1,948,355	5,506	1,953,861
Profit for the year		–	–	–	–	–	–	215,925	–	215,925	475	216,400
Other comprehensive income		–	–	–	(3,697)	–	–	–	(2,591)	(6,288)	(49)	(6,337)
Total comprehensive income for the year		–	–	–	(3,697)	–	–	215,925	(2,591)	209,637	426	210,063
Capital contribution from equity holders	33	–	119,989	–	–	–	–	–	–	119,989	25	120,014
Appropriation to surplus reserve	36	–	–	–	–	21,161	–	(21,161)	–	–	–	–
Appropriation to general reserve	37	–	–	–	–	–	34,433	(34,433)	–	–	–	–
Dividends paid to ordinary equity holders	10	–	–	–	–	–	–	(63,662)	–	(63,662)	–	(63,662)
Dividends paid to other equity instrument holders	10	–	–	–	–	–	–	(9,530)	–	(9,530)	–	(9,530)
As at 31 December 2020		349,983	319,875	173,556	25,987	196,071	311,449	828,240	(372)	2,204,789	5,957	2,210,746

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2021
(Amounts in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
	IV	**2021**	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**295,880**	265,050
Adjustments for:			
Amortization of intangible assets and other assets		**2,322**	2,147
Depreciation of property, equipment and right-of-use assets		**17,475**	17,404
Credit impairment losses		**165,886**	164,699
Impairment losses on other assets		**114**	204
Interest income arising from investment securities		**(252,804)**	(238,995)
Interest expense on debt securities issued		**39,188**	35,746
Revaluation loss/(gain) on financial instruments at fair value through profit or loss		**4,019**	(2,968)
Net gain on investment securities		**(1,285)**	(750)
Share of result of associates and joint ventures		**(409)**	(518)
Net gain on disposal of property, equipment and other assets		**(921)**	(1,003)
Net foreign exchange loss		**16,877**	26,972
		286,342	267,988
Net change in operating assets and operating liabilities:			
Net decrease/(increase) in balances with central banks, deposits with banks and other financial institutions		**313,337**	(330,552)
Net (increase)/decrease in placements with and loans to banks and other financial institutions		**(4,992)**	29,377
Net decrease/(increase) in financial assets held under resale agreements		**48,919**	(49,415)
Net increase in loans and advances to customers		**(2,026,482)**	(1,832,315)
Net increase in borrowings from central banks		**10,483**	128,514
Net (decrease)/increase in placements from banks and other financial institutions		**(99,232)**	65,941
Net increase in due to customers and deposits from banks and other financial institutions		**1,712,770**	1,375,364
Decrease in other operating assets		**173,587**	94,748
(Decrease)/increase in other operating liabilities		**(116,370)**	253,209
Cash from operations		**298,362**	2,859
Income tax paid		**(58,747)**	(63,795)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		**239,615**	(60,936)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2021
(Amounts in millions of Renminbi, unless otherwise stated)

	Note IV	Year ended 31 December 2021	2020
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from disposal/redemption of investment securities		**1,619,583**	1,987,387
Cash received from investment income		**247,470**	228,563
Cash received from disposal of investment in associates and joint ventures		**2,793**	–
Cash received from disposal of property, equipment and other assets		**5,790**	8,350
Cash paid for purchase of investment securities		**(2,178,694)**	(2,669,040)
Increase in investment in associates and joint ventures		**(2,146)**	(1,676)
Cash paid for purchase of property, equipment and other assets		**(26,033)**	(22,844)
NET CASH USED IN INVESTING ACTIVITIES		**(331,237)**	(469,260)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution from issues of other equity instruments		**40,000**	120,000
Cash payments for transaction cost of other equity instruments issued		**(3)**	(11)
Cash received from debt securities issued		**1,635,127**	1,731,396
Repayments of debt securities issued		**(1,497,003)**	(1,468,391)
Cash payments for interest on debt securities issued		**(40,429)**	(35,050)
Cash payments for transaction cost of debt securities issued		**(39)**	(6)
Cash payments for principal portion and interest portion of lease liability		**(5,010)**	(4,968)
Capital contribution from non-controlling interests		**37**	25
Dividends paid		**(78,677)**	(73,192)
NET CASH FROM FINANCING ACTIVITIES		**54,003**	269,803
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(37,619)**	(260,393)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		**1,175,153**	1,454,581
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(12,772)**	(19,035)
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	38	**1,124,762**	1,175,153
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		**717,022**	655,726
Interest paid		**(342,465)**	(315,177)

The accompanying notes form an integral part of these consolidated financial statements.

I GENERAL INFORMATION

Agricultural Bank of China Limited (the "Bank") is the successor entity to the Agricultural Bank of China (the "Predecessor Entity") which was a wholly state-owned commercial bank approved for setup by the People's Bank of China (the "PBOC") and founded on 23 February 1979 in the People's Republic of China (the "PRC"). On 15 January 2009, the Bank was established after the completion of the financial restructuring of the Predecessor Entity. The Bank's establishment was authorized by the PBOC. The Bank was listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited on 15 July 2010 and 16 July 2010, respectively.

The Bank operates under financial services certificate No. B0002H111000001 issued by the China Banking and Insurance Regulatory Commission (the "CBIRC"), and business license No. 911100001000054748 issued by Beijing Administration of Industry and Commerce. The registered office of the Bank is located at No. 69 Jianguomen Nei Avenue, Dongcheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively, the "Group") include Renminbi ("RMB") and foreign currency deposits, loans, clearing and settlement services, assets custodian services, fund management, financial leasing services, insurance services and other services as approved by relevant regulators, and the provision of related services by its overseas establishments as approved by the respective local regulators.

The head office and domestic branches of the Bank and its subsidiaries operating in the Chinese mainland are referred to as the "Domestic Operations". Branches and subsidiaries registered and operating outside of the Chinese mainland are referred to as the "Overseas Operations".

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance for this financial year and the comparative period.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of consideration given in exchange for assets and that is received (or in some circumstances the amount expected to be paid) with respect to liabilities.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basic of preparation (Continued)

1.1 Other amendments to the standards effective in 2021 relevant to and adopted by the Group

The Group has adopted the following International Financial Reporting Standards ("IFRSs") and amendments issued by the International Accounting Standards Board ("IASB"), that are mandatorily effective for the current reporting period.

			Notes
(1)	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2	(i)
(2)	Amendment to IFRS 16	Covid-19-Related Rent Concessions	(ii)

(i) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest rate benchmark reform — phase 2.

The IASB has issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 that address issues that arise during the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.

The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform, including: 1. For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. 2. Require an entity to prospectively cease to apply the Phase 1 reliefs to a non contractually specified risk component at the earlier of when changes are made to the non contractually specified risk component, or when the hedging relationship is discontinued. 3. Additional temporary exceptions from applying specific hedge accounting requirement. 4. Additional IFRS 7 disclosure requirements related to IBOR reform. The adoption of the amendments does not have a significant impact on the consolidated financial statements of the Group.

(ii) Amendment to IFRS 16: Covid-19-Related Rent Concessions

On 31 March 2021, the IASB issued amendments to IFRS 16: to provide a one-year extension to one of the eligibility criteria for the use of the practical expedient (the "PE"). As a result, rent concessions that reduce only lease payments originally due on or before 30 June 2022 would become eligible (compared to 30 June 2021 as in PE 2020). The adoption of the amendments does not have a significant impact on the consolidated financial statements of the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2021

The Group has not adopted the following new or amended standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee ("IFRIC"), that have been issued but are not yet effective.

			Effective for annual periods beginning on or after	Notes
(1)	Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022	(i)
(2)	Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022	(ii)
(3)	Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022	(iii)
(4)	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	IASB Annual Improvements 2018–2020 cycle	1 January 2022	(iv)
(5)	Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023	(v)
(6)	Amendments to IFRS 17	Insurance Contracts	1 January 2023	(vi)
(7)	Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023	(vii)
(8)	Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023	(viii)
(9)	Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	(ix)
(10)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The effective date has now been deferred	(x)

(i) Amendments to IFRS 3: Reference to the Conceptual Framework

The IASB issued amendments to IFRS 3: Reference to the Conceptual Framework. The amendments have updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2021 (Continued)

(ii) Amendments to IAS 37: Onerous Contracts — Cost of Fulfilling a Contract

The IASB issued amendments to IAS 37: Cost of Fulfilling a Contract. The amendments clarify the meaning of 'costs to fulfil a contract', they explain that the direct cost of fulfilling a contract comprises: the incremental costs of fulfilling that contract and; an allocation of other costs that relate directly to fulfilling contracts. The amendments also clarify that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. The amendments could result in the recognition of more onerous contract provisions, because previously some entities only included incremental costs in the costs to fulfil a contract. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(iii) Amendments to IAS 16: Property, Plant and Equipment — Proceeds before Intended Use

The IASB issued amendments to IAS 16: Proceeds before Intended Use. The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The amendment also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management. The amendment requires entities to separately disclose the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. An entity should also disclose the line item in the statement of comprehensive income where the proceeds are included. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(iv) Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41: IASB Annual Improvements 2018–2020 cycle

The IASB issued amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41: Annual improvements 2018–2020 cycle, which include optional relief for the measurement of cumulative translation differences to those first-time adopters, clarifying fees included when assessing the derecognition of financial liability, the amendment to illustrative example accompanying HKFRS 16, 'Leases', and the removement of the requirement to exclude taxation cash flows when measuring fair value. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(v) Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The IASB issued a narrow-scope amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2021 (Continued)

(v) Amendments to IAS 1: Classification of Liabilities as Current or Non-current (Continued)

The amendment changes the guidance for the classification of liabilities as current or non-current. It could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. All entities should reconsider their existing classification in the light of the amendment and determine whether any changes are required. The Group anticipates that the adoption of the amendments will have no impact on the Group's consolidated financial statements.

(vi) Amendments to IFRS 17: Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. IFRS 17 is issued to resolve the comparison problems created by IFRS 4 by setting out a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

The IASB issued the amendments to IFRS 17: Insurance contracts on 25 June 2020, together with an amendment to IFRS 4, so that eligible insurers can still apply IFRS 9 alongside IFRS 17. This concluded the IASB's targeted amendments to IFRS 17 which aimed to ease implementation of the standard by reducing implementation costs and making it easier for entities to explain, to investors and others, the results from applying IFRS 17. IFRS 17 should be applied to annual reporting periods beginning on or after 1 January 2023, with earlier application permitted, and the amendments should be applied at the same time.

The Group has not completed its assessment of the impact on the Group's consolidated financial statements of adopting IFRS 17.

(vii) Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies

The IASB issued the amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies. The amendments include: An entity will be required to disclose its material accounting policy information instead of its significant accounting policies; Additional guidance has been provided on how an entity can identify material accounting policy information; and IFRS Practice Statement 2 Making Materiality Judgements has been amended by adding guidance and examples to explain and illustrate the application of the "four-step materiality process" to accounting policy information. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(viii) Amendments to IAS 8: Definition of Accounting Estimates

The IASB issued the amendments to IAS 8: Definition of Accounting Estimates. The amendment defined the "Accounting estimates" are now as "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The definition of "a change in accounting estimate" is removed. The amendment also clarifies that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates unless they result from the correction of prior period errors. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2021 (Continued)

(ix) Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The IASB issued targeted amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments specified how companies should account for deferred tax on transactions such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(x) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

2 Consolidation

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries as well as structured entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date on which control ceases, respectively.

Adjustments are made to the financial statements of subsidiaries, where appropriate, to consistently reflect the accounting policies of the Group.

When merging, all intra-group transactions, balances and unrealized gains on transactions are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Non-controlling interests of consolidated subsidiaries are presented separately from the controlling party's equity therein.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

Basis of consolidation *(Continued)*

The carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Further, total comprehensive income of a subsidiary is attributed, based on the proportion of their respective holdings, to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost, less impairment losses, if any.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred by the Group, liabilities incurred or assumed by the Group, and any equity interests issued by the Group. Acquisition related costs are recognized in the consolidated income statement as incurred.

At the acquisition date, irrespective of non-controlling interests, the identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair values; except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 — Income Taxes and IAS 19 — Employee Benefits, respectively.

Non-controlling interests that represent ownership interests in the acquiree, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are accounted for at either fair value or the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Goodwill

Goodwill represents the excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") or groups of CGUs that is expected to benefit from the synergies of the business combination.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU, which is the higher of fair value less costs to sell and value in use, is less than its carrying amount, the deficit, reflecting an impairment loss, is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis, based on the carrying amount of each asset in the CGU. Any goodwill impairment loss is recognized directly in the consolidated income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

Investment in associate and joint venture

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement through a separate entity, and have rights to the net assets of the arrangement based on legal form, contract terms, and other facts and circumstances. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not constitute control or joint control over those policy decisions. Joint control is the contractually agreed sharing of control over an activity, and exists only when the decisions relating to the activity require the unanimous consent of the Group and other parties sharing the control.

The post-acquisition profit or loss of an associate or a joint venture is incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate or a joint venture is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of loss of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further loss. Additional loss is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

At the end of each reporting period, the Group considers whether there are circumstances that indicate the possibility of impairment of the Group's investment in an associate or a joint venture; when that is the case, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 — Impairment of Assets, as a single asset by comparing its recoverable amount (the higher of fair value less costs to sell and value in use) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of an impairment loss is recognized in accordance with IAS 36, to the extent that the recoverable amount of the investment subsequently increases.

When an entity in the Group transacts with the Group's associate or joint venture, profits and losses resulting from the transaction are recognized in the Group's consolidated financial statements only to the extent of the interest in the associate or joint venture that are not related to the Group. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3 Interest income and expenses

Interest income and expenses of financial instruments are calculated using the effective interest method and included in the current profit and loss.

The Group uses the effective interest method to calculate the interest income and expenses of financial assets and liabilities measured at amortized cost or at fair value through other comprehensive income, presented as "interest income" and "interest expenses" respectively. For specific accounting policies, please refer to the Note II 8.4 subsequent measurement of financial instruments.

4 Fee and commission income

Fee and commission income is recognized when the Group fulfills its performance obligation, either over time or at a point in time when a customer obtains control of the service.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4 Fee and commission income (Continued)

For the performance obligations satisfied at a point in time, the Group recognizes revenue when control is passed to the customer at a certain point in time, including insurance agency fee, merchant acquiring service fee, settlement & clearing services and bond underwriting fee, etc. For the performance obligations satisfied over time, the Group recognizes revenue according to the progress toward satisfaction of the obligation over the time, including consultancy and advisory fee and custodial fee, etc.

5 Foreign currency translation

The functional currency of the Domestic Operations is RMB. The presentation currency of the Group and the Bank is RMB.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in the consolidated income statement in the period in which they arise, except for the following:

(i) exchange differences arising on a monetary item that forms part of the Bank's net investment in the Overseas Operations;

(ii) changes in the fair value of monetary assets denominated in foreign currency classified as financial investments at fair value through other comprehensive income are analyzed between translation differences resulting from changes in the amortized cost of the monetary assets and other changes in the carrying amount. Translation differences related to changes in the amortized cost are recognized in the consolidated income statement, and other changes in the carrying amount are recognized in other comprehensive income.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's Overseas Operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the foreign currency translation reserve and non-controlling interests, as appropriate. The accumulated foreign currency translation reserve related to the Overseas Operations will be reclassified from equity to the consolidated income statement on disposal of all or part of the Overseas Operations.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6 Taxation

Income tax comprises current and deferred income tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized for temporary difference related to goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that the temporary difference will not reverse in the foreseeable future or it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in the consolidated income statement, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6 Taxation (Continued)

Value-added Taxes ("VAT")

The Group mainly provides financial services such as loan services, direct-charge financial services, insurance services and transfer of financial commodities, which are subject to the VAT rate of 6%. For other services, VAT is calculated and paid in accordance with the tax rates stipulated in the tax law.

Pursuant to the "Circular of the Ministry of Finance and the State Administration of Taxation on Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs" (Cai Shui [2016] No. 46), the Bank elected to adopt a simplified methodology to calculate VAT at 3% on interest income derived from loans granted to farming households, rural enterprises and other rural institutions by county-level sub-branches included in the Bank's pilot programs of the County Area Banking Division, including those under the Bank's provincial branches in provinces, autonomous regions, municipalities directly under the central government and municipalities with independent budgetary status as well as those under the Xinjiang Production and Construction Corps Branch.

In accordance with the Ministry of Finance and the State Administration of Taxation's "Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services" (Cai Shui [2016] No. 140), the "Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products" (Cai Shui [2017] No. 2) and the "Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products" (Cai Shui [2017] No. 56), the Group shall pay VAT at 3% for taxable asset management activities undertaken after 1 January 2018.

7 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditure incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, post-employment benefits and early retirement benefits.

Short-term employee benefits

Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labor union fees and staff education expenses. In the reporting period in which an employee has rendered services, the Group recognizes the short-term employee benefits payable for those services as a liability with a corresponding increase in the expenses in the consolidated income statement or capitalization as cost of related assets.

Post-employment benefits

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods.

Contributions to the basic pensions and unemployment insurance plan are recognized in the consolidated income statement for the period or capitalization as cost of related assets in which the related payment obligation is incurred.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7 Employee benefits (Continued)

***Post-employment benefits** (Continued)*

The employees of the Bank's head office and domestic branches ("Domestic Institutions") participate in an annuity scheme established by the Bank (the "Annuity Scheme"). The Bank pays annuity contributions with reference to employees' salaries, and such contributions are expensed in the consolidated income statement or capitalized as cost of related assets when incurred. The Bank has no further obligation if the Annuity Scheme does not have sufficient assets for the payment of any retirement benefits to employees funded by the Annuity Scheme.

Early retirement benefits

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The accounting treatment of the Group's early retirement benefits is in accordance with termination benefits as determined in IAS 19. The liability is recognized for the early retirement benefit payments from the date of early retirement to the normal retirement date when the criteria for recognition as termination benefit is met with a corresponding charge in the consolidated income statement. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognized in the consolidated income statement when incurred.

8 Financial instruments

8.1 Initial recognition, classification and measurement of financial instruments

Financial assets or financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument.

For purchases or sales of financial assets in a regular way, the related assets and liabilities are recognized or sold assets are derecognized at the trade date, along with the recognition of gains or losses on disposal and the receivables due from the buyer. The trade date is the date on which the Group commits to purchase or sell the financial asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. For other classes of financial assets or financial liabilities, the relevant transaction costs are included in the initial recognition amount.

(1) Financial assets

Financial assets are classified in the following measurement categories based on the Group's business model for managing the asset and the cash flow characteristics of the assets:

(i) Amortized cost ("AC");

(ii) Fair value through other comprehensive income ("FVOCI"); or

(iii) Fair value through profit or loss ("FVPL").

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Initial recognition, classification and measurement of financial instruments (Continued)

(1) Financial assets (Continued)

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes consideration for the time value of money, credit risk associated with the principal amount outstanding during a particular period of time, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. The Group also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The classification requirements for debt instruments and equity instruments in the Group are described as below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds. Classification and measurement of debt instruments depend on the Group's business models for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the debt instruments of the Group are classified into three categories below:

(i) AC: Debt instruments that are held within a business model whose objective is to hold assets to collect contractual cash flows; and contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and that are not designated as at FVPL, are measured at amortized cost.

(ii) FVOCI: Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and that are not designated as at FVPL, are measured at FVOCI.

(iii) FVPL: All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVPL.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Initial recognition, classification and measurement of financial instruments (Continued)

(1) Financial assets (Continued)

Debt Instruments (Continued)

The Group may also irrevocably designate financial assets at FVPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective referring to Note II 8.9, examples of equity instruments include basic ordinary shares. The Group subsequently measures all equity investments at FVPL, except for the equity investment not held for trading where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI.

(2) Financial liabilities

The Group's financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at amortized cost on initial recognition. Financial liabilities at FVPL is applied to derivatives, financial liabilities held for trading and financial liabilities designated as such at initial recognition.

The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when doing so results in more relevant information, because either:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the entity's key management personnel.

Once the designation is made, it shall not be revoked.

Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, if the enterprise retains substantially all the risks and rewards of the ownership of the transferred financial asset and does not qualified for derecognition, the Group shall continue to recognize the transferred financial asset in its entirety and recognize a financial liability for the consideration received. In applying the continued involvement approach of accounting, please refer to the Note II 8.7 Derecognition of financial assets for the measurement of the transferred liability.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.2 Reclassification of financial assets

When the Group changes the business model for managing its financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

8.3 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For financial instruments traded in active markets the determination of fair values of financial assets and financial liabilities is based on quoted market prices. Active market is a place in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. In an active market, the quoted prices of relevant assets or liabilities should be readily and regularly available from exchanges, dealers, brokers, industry groups, pricing institutions or regulatory institutions by the enterprise. The current market may not be active when there is a significant decline in the volume of transaction or level of activity, price quotations vary substantially either over time or among market-makers and current prices are not available. For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, fair value of other financial instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants. When measuring the asset or liability at fair value, the Group shall use valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value, select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability. These valuation techniques include the use of observable and/or unobservable inputs, and observable inputs are preferred.

8.4 Subsequent measurement of financial instruments

Subsequent measurement of financial instruments depends on the categories:

(1) Amortized cost

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount; (iii) for financial assets, adjusted for any loss allowance. Interest income and interest expenses from these financial assets and liabilities are included in "Interest income" and "Interest expenses" using the effective interest rate method.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.4 Subsequent measurement of financial instruments (Continued)

(1) Amortized cost (Continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses ("ECL") and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired ("POCI") financial assets, the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets and is included in "Interest income", except for:

(i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortized cost; and

(ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e.net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

(2) Fair value through other comprehensive income

Debt instruments

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in "interest income" using the effective interest rate method.

Equity instruments

The equity instrument investments that are not held for trading are designated as FVOCI. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as investment income when the Group's right to receive payments is established. Other net gains or losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

(3) Financial assets at fair value through profit or loss

The financial asset is measured at fair value and net gains or losses are recognized in profit or loss.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.4 Subsequent measurement of financial instruments (Continued)

(4) Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL are measured at fair value with all gains or losses recognized in the profit or loss of the current period, except for financial liabilities designated as at fair value through profit or loss, where gains or losses on the financial liabilities are treated as follows:

(i) changes in fair value of such financial liabilities due to changes in the Group's own credit risk are recognized in other comprehensive income; and

(ii) other changes in fair value of such financial liabilities are recognized in profit or loss of the current period. If the accounting of changes in the credit risk of the financial liabilities in accordance with (i) will create or enlarge accounting mismatches in profit or loss, the Group recognizes all gains or losses on such financial liabilities (including amounts arising from changes in its own credit risk) in the profit or loss.

When the liabilities designated as at fair value through profit or loss is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to retained earnings.

8.5 Impairment of financial instruments

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and exposures arising from some loan commitments and financial guarantee contracts.

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, which are all cash shortfalls, discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

The Group measures ECL of a financial instrument reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(ii) the time value of money; and

(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.5 *Impairment of financial instruments (Continued)*

For financial instruments whose impairment losses are measured using the ECL models, the Group applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

— Stage I: If the credit risk has not increased significantly since its initial recognition, the financial asset is included in stage I.

— Stage II: If the credit risk has increased significantly since its initial recognition but is not yet deemed to be credit-impaired, the financial instrument is moved to Stage II. The description of how the Group determines when a significant increase in credit risk has occurred is disclosed in Note IV 44.1.

— Stage III: If the financial instrument is credit-impaired, the financial instrument is then moved to Stage III. The definition of credit-impaired financial assets is disclosed in Note IV 44.1.

Financial instruments in Stage I have their ECL measured at an amount equivalent to the ECL of the financial asset for the next 12 months ("12m ECL"). Financial instruments in Stage II or Stage III have their ECL measured at an amount equivalent to the ECL over the lifetime of the financial instruments ("Lifetime ECL"). The description of inputs, assumptions and estimation techniques used in measuring the ECL is disclosed in Note IV 44.1.

For accounts receivable, lease receivables and contract assets, the Group always recognise lifetime expected credit losses. The Group uses provision matrix based on its historical credit loss experience for above-mentioned financial assets to estimate ECLs. The historical credit experience is appropriately adjusted to reflect the specific factors of borrowers, current events and forecast future conditions as at reporting date.

The Group applies the impairment requirements for the recognition and measurement of a loss allowance for debt instruments that are measured at FVOCI. The loss allowance is recognized in other comprehensive income and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial asset in the statement of financial position.

If the Group has measured the loss allowance for a financial instrument other than POCI at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on the financial instruments has increased significantly since initial recognition is no longer met, the Group measures the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date and the amount of expected credit losses reversal is recognized in profit or loss. For POCI financial assets, at the reporting date, the Group only recognizes the cumulative changes in lifetime expected credit losses since initial recognition.

8.6 *Modification of loans*

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether the new terms are substantially different to the original terms.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.6 Modification of loans (Continued)

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

8.7 Derecognition of financial assets

Financial asset is derecognized when one of the following conditions is met:

(i) the Group's contractual rights to the cash flows from the financial asset expire; (ii) the financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or (iii) the financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

The financial asset has been transferred, if the Group neither transfers nor retains substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset, whereby the related liabilities is recognized accordingly.

On derecognition of a financial asset in its entirety, the difference between the sum of the consideration received for the part derecognized any cumulative amount of fair value recognized in other comprehensive income (if the transfer involves any debt investments measured at fair value through other comprehensive income) and the carrying amount allocated to the part derecognized on the date of derecognition shall be included in profit and loss for the current period.

8.8 Derecognition of financial liabilities

A financial liability (or a part of a financial liability) is removed when the obligation specified in the contract is discharged or cancelled or expires in whole or in part. An exchange between the group and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in profit or loss.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.9 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met: (i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

8.10 Derivative financial instruments and hedge accounting

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognized in the consolidated income statement.

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss or other comprehensive income.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in profit or loss or other comprehensive income, together with the changes in fair value of the hedged item attributable to the hedged risk.

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item and the face value is amortised over the remaining term of the original hedge using the effective interest rate method.

The Group discontinues fair value hedge accounting when the hedging relationship ceases to meet the qualifying criteria after taking into account any rebalancing of the hedging relationship, including the hedging instrument has expired or has been sold, terminated or exercised. If the hedged items are derecognised, the unamortised fair value is recorded in profit or loss.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.10 Derivative financial instruments and hedge accounting (Continued)

(b) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect the profit or loss.

The effective portion of changes in the net gains and losses of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity in the "other comprehensive income". The ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in other comprehensive income are reclassified to the profit or loss in the same periods when the hedged item affects the profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

8.11 Embedded derivative financial instruments

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) The hybrid contract is not measured at fair value through profit or loss.

Where an embedded derivative is separated from a hybrid contract, the Group accounts for the host contract of the hybrid contract in accordance with the provisions of the applicable accounting standards. Where the fair value of the embedded derivative is unable to be reliably measured on the basis of the terms and conditions, the fair value of the embedded derivative is determined as the difference between the fair value of the hybrid contract and the fair value of the host contract. If, after using the above method, the fair value of the embedded derivative at the acquisition date or at the end of a subsequent financial reporting period is still unable to separately measurable, the Group designates the entire hybrid contract as a fair value through profit or loss.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.12 Offsetting financial assets and financial liabilities

When the Group has a legal right to set off the recognized amounts and the legal right is currently enforceable, and the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously, financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position. Besides, financial assets and liabilities shall be settled respectively but not offset each other. The legally enforceable right of set-off must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

8.13 Financial assets purchased under resale agreements and financial assets sold under repurchase agreements

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as investments classified as financial assets before sale or loan. The corresponding liability is included in financial assets sold under repurchase agreements. The items which are not derecognized are disclosed in Note IV 42 Contingent Liabilities and Commitments — Collateral.

Consideration paid for financial assets held under agreements to resell are recorded as Financial assets held under resale agreements, the related financial assets accepted is not recognized in the consolidated financial statements (Note IV 42 Contingent Liabilities and Commitments — Collateral).

The difference between the purchase and sale price is recognized as gain or loss in the current period using the effective interest method.

9 Insurance contracts

Insurance contract classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to the reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 — Insurance Contracts and the unbundled deposit component is accounted for as a financial liability.

Insurance income recognition

Insurance premium income is recognized when the following conditions are met: the insurance contract is issued and related insurance risk is undertaken by the Group, the related economic benefits are likely to flow to the Group, and the related income can be reliably measured.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9 Insurance contracts (Continued)

Insurance contract liabilities

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfill its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities will be recorded if any deficiency exists.

10 Precious metals

Precious metals comprise gold, silver and other precious metals.

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realizable value. Precious metals that are related to the Group's trading activities are initially recognized at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated income statement in the period in which they arise.

11 Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purpose (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of buildings and recorded in property and equipment.

Subsequent expenditure incurred for the property and equipment (other than construction in progress) is included in the cost of the property and equipment (other than construction in progress) if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured, and the carrying amount of the replaced part is derecognized. Other subsequent expenditure is recognized in the consolidated income statement in the period in which they are incurred.

Depreciation is recognized as a component of operating expenses in the consolidated income statement so as to recognize the consumption of the economic value of property and equipment (other than construction in progress), less their estimated residual values, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation rates are reviewed at the end of each reporting period.

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment are as follows:

Classes	Useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	5–50 years	3%	1.94%–19.40%
Electronic equipment, furniture and fixtures	3–11 years	3%	8.82%–32.33%
Motor vehicles	5–8 years	3%	12.13%–19.40%

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11 Property and equipment (Continued)

Properties in the course of construction for supply of services or administrative purposes are carried at cost, as construction in progress, less any impairment loss. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in other operating income or operating expenses in the consolidated income statement. The accounting policies of impairment of property and equipment are included in Note II 17 Impairment of Non-financial Assets other than Goodwill.

12 Land use rights

Land use rights are classified in other assets and amortized over a straight-line basis over their authorized useful lives.

13 Foreclosed assets

The Group initially recognizes at fair value the foreclosed financial assets. Non-financial foreclosed assets are initially recognized at the fair value of the rights given up by creditors and other costs such as taxes directly attributable to the asset.

When the debtor pays off the debts with multiple assets or in form of restructuring arrangement, the group firstly recognizes and measures the foreclosed financial assets and restructured rights according to provision illustrated in Note II 8.1 Initial recognition, classification and measurement of financial instruments. The net amount, of the fair value of the rights given up by creditor deducted the initial amount recognized for the transferred financial assets and restructured rights, should be distributed in accordance with the proportion of the fair value of each non-financial asset. The distributed amount should be recognized as the initial book value of each non-financial foreclosed assets.

The difference between the fair value and book value of the rights given up by creditor is recorded in profit and loss.

14 Investment property

Investment property is property held to earn rental income or for capital appreciation, or both.

Investment properties are measured using the cost model. Depreciation and amortization is recognized the same way as property and equipment and land use rights. Subsequent expenditure incurred for the investment property is included in the cost of the investment property if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured reliably. Other subsequent expenditure is recognized in the consolidated income statement in the period in which they are incurred.

The accounting policies of impairment of investment property are included in Note II 17 Impairment of Non-financial Assets other than Goodwill.

Where an impairment loss subsequently reverses, the carrying amount of the investment property is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized in the consolidated income statement.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal, net of the carrying amount and related taxes, in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

15 Leasing

Lease is a contract or part of a contract that conveys the right to use an asset for a period of time in exchange for consideration.

The Group as lessee

The Group recognized the right-of-use assets at the commencement date, and recognized the lease liabilities at the present value of the outstanding lease payments. Lease payments include fixed payments, the amounts expected to be payable by the Group if the Group is reasonably certain to exercises a purchase option or a option to terminate the lease. Variable lease payments not included in the measurement of the lease liability are recognized as an expense in profit or loss when incurred.

The right-of-use assets of the Group are measured at costs, which include the amount of the initial measurement of lease liabilities, any lease payments made at or before the commencement date, any initial direct costs and less any lease incentives received. If the Group could reasonably determine the ownership of the leased asset when the lease term expires, the right-of-use assets are depreciated over the asset's remaining useful life. Otherwise, the right-of-use assets are depreciated over the shorter period of the asset's useful life and the lease term on a straight-line basis. When the recoverable costs of right-of-use assets are lower than the carrying amount, the value of right-of-use assets will be decreased down to the recoverable costs.

Short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Leases of low value assets are the underlying assets are of low value when new.

The Group as lessor

When the Group is the lessor in a finance lease, a finance lease receivable as an amount equal to the net lease investment is recognized and the finance lease asset is derecognized at the commencement date. The finance lease receivables are recorded in the consolidated statement of financial position as Loans and advances to customers.

When the Group is the lessor in an operating lease, rental income from operating leases is recognized as operating income in the consolidated income statement on a straight-line basis over the term of the related lease. The initial direct costs are included in the carrying amount of the underlying assets and is recognized as expenses over the lease term on the same basis as the lease income.

16 Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment loss. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives which generally range from 5 to 20 years.

Intangible assets with indefinite useful lives are not amortized, but are subject to annual impairment assessment.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

17 Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized in the consolidated income statement.

18 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with original maturity of three months or less under cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements.

19 Dividend distribution

Dividend distribution to the Bank's ordinary equity holders is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the ordinary equity holders in the annual general meeting of the Bank.

As authorized by the ordinary equity holders in the annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. Preference share dividend distribution is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

20 Provisions, contingent liabilities and commitments

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

21 Fiduciary activities

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with custody agreements between the Group and securities investment funds, social security funds, insurance companies, trust companies, qualified foreign institutional investors, annuity schemes and other institutions and individuals. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing funds for the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

22 Financial guarantee contracts and loan commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognized at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of guarantee fees, and the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated income statement.

The impairment allowance of loan commitments provided by the Group is measured using ECL models. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

23 Related parties

The Group determines the Group's related parties in accordance with IFRSs and other relevant provisions.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Group's accounting policies, which are described in Note II, management is required to make judgments, estimates and assumptions that affect the carrying amounts of assets and liabilities. The judgments, estimates and related assumptions are based on historical experience and other relevant factors including reasonable expectations for future events.

The judgments, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods as appropriate.

The following are the critical judgments and key estimates management has made in the process of applying the Group's accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

1 Classification of financial assets

The critical judgments the Group has made in determining the classification of financial assets include analysis of business models and characteristics of contractual cash flows.

The Group determines the business model for managing financial assets at the level of financial asset portfolio. The factors considered include how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

When assessing whether the contractual cash flow of financial assets is consistent with the basic lending arrangement, the Group has the following main judgments: Whether the principal may be subject to change in the duration or amount of money due to prepayments during the duration; whether interests only included time value of money, credit risk, other basic borrowing risks, and considerations for costs and profits. For example, whether the amount paid in advance reflect only the outstanding principal and interest on the outstanding principal, as well as reasonable compensation for early termination of the contract.

2 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI and for exposures arising from some loan commitments and financial guarantee contracts, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note IV 44.1 Credit risk.

3 Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models. To the extent practical, market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, liquidity, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

With respect to PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

4 Deferred taxes

There are certain transactions and activities in the ordinary course of the Group's business for which the ultimate tax effect is uncertain. The Group made certain estimation and judgement for items of uncertainty in the application of tax legislations, taking into account existing tax legislation and past practice of tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will affect the current income tax, deferred income tax and VAT during the period in which such a determination is made.

5 Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

6 Derecognition of financial assets transferred

In its normal course of business, the Group transfers its financial assets through various types of transactions including regular way sales and transfers, securitization, financial assets sold under repurchase agreements, securities lending. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial derecognition.

Where the Group enters into structured transactions by which it transfers financial assets to structured entities, the Group analyzes whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities to determine whether the Group needs to consolidate these structured entities. This will determine whether the following derecognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets are transferred.

The Group analyzes the contractual rights and obligations in connection with such transfers to determine whether the derecognition criteria are met based on the following considerations:

- whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualifies for the "pass through" of those cash flows to independent third parties.
- the extent to which the associated risks and rewards of ownership of the financial assets are transferred. Significant judgment is applied in the Group's estimation with regard to the cash flows before and after the transfers and other factors that affect the outcomes of Group's assessment on the extent that risks and rewards are transferred.
- where the Group has neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyzes whether it has relinquished its controls over these financial assets by assessing whether the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, and if the Group has continuing involvement in these transferred financial assets. Where the Group has not retained control, it derecognizes these financial assets and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise the Group continues to recognize these financial assets to the extent of its continuing involvement in the financial asset.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 NET INTEREST INCOME

	Year ended 31 December	
	2021	2020
Interest income		
Loans and advances to customers	**694,009**	631,753
Including: Corporate loans and advances	**380,351**	351,898
Personal loans and advances	**313,658**	279,855
Financial investments		
Debt instrument investments at amortized cost	**208,225**	187,067
Other debt instrument investments at fair value through other comprehensive income	**44,579**	51,928
Balances with central banks	**34,726**	34,271
Placements with and loans to banks and other financial institutions	**5,868**	8,824
Financial assets held under resale agreements	**11,989**	9,984
Deposits with banks and other financial institutions	**8,618**	7,105
Subtotal	**1,008,014**	930,932
Interest expense		
Due to customers	**(329,593)**	(284,552)
Deposits from banks and other financial institutions	**(36,930)**	(37,588)
Debt securities issued	**(39,188)**	(35,746)
Borrowings from central banks	**(20,519)**	(20,424)
Placements from banks and other financial institutions	**(3,479)**	(6,114)
Financial assets sold under repurchase agreements	**(318)**	(1,429)
Subtotal	**(430,027)**	(385,853)
Net interest income	**577,987**	545,079

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2021	2020
Fee and commission income		
Electronic banking services	**30,476**	26,169
Agency services	**23,677**	21,043
Bank cards	**15,435**	14,702
Consultancy and advisory services	**11,644**	11,174
Settlement and clearing services	**11,094**	11,129
Custodian and other fiduciary services	**3,832**	4,435
Credit commitment	**1,980**	1,875
Others	**583**	639
Subtotal	**98,721**	91,166
Fee and commission expense		
Bank cards	**(11,942)**	(10,760)
Electronic banking services	**(3,509)**	(3,182)
Settlement and clearing services	**(1,598)**	(1,483)
Others	**(1,343)**	(1,196)
Subtotal	**(18,392)**	(16,621)
Net fee and commission income	**80,329**	74,545

3 NET TRADING GAIN

		Year ended 31 December	
	Note	**2021**	2020
Net gain on debt instruments held for trading		**3,847**	4,178
Net gain on precious metals	(i)	**3,650**	4,784
Net gain on foreign exchange rate derivatives		**6,672**	3,211
Net gain/(loss) on interest rate derivatives		**440**	(3,103)
Others		**(368)**	7,335
Total		**14,241**	16,405

(i) Net gain on precious metals consists of net gain on precious metals and precious metal related derivative products.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 NET GAIN/(LOSS) ON FINANCIAL INVESTMENTS

	Year ended 31 December	
	2021	2020
Net loss on debt instruments designated as at FVPL	**(237)**	(92)
Net gain on other debt instruments measured at FVPL	**20,907**	4,120
Net loss on financial liabilities designated as at FVPL (i)	**(7,445)**	(11,271)
Net gain on debt instruments measured at FVOCI	**1,235**	750
Net gain/(loss) on underlying assets and liabilities related to principal guaranteed wealth management products designated as at FVPL	**1,068**	(748)
Others	**(493)**	(71)
Total	**15,035**	(7,312)

(i) *Net loss on financial liabilities designated as at FVPL consists of the amount paid upon the maturity of structured deposits designated at FVPL.*

5 OTHER OPERATING INCOME

	Year ended 31 December	
	2021	2020
Insurance premium	**29,188**	26,151
Rental income	**1,065**	950
Gain on disposal of property and equipment	**1,032**	1,172
Government grant	**948**	784
Net gain/(loss) on foreign exchange	**224**	(95)
Others	**1,686**	1,652
Total	**34,143**	30,614

6 OPERATING EXPENSES

		Year ended 31 December	
	Notes	**2021**	2020
Staff costs	(1)	**137,953**	123,345
General operating and administrative expenses	(2)	**61,558**	49,452
Insurance benefits and claims		**30,988**	27,873
Depreciation and amortization		**19,797**	19,551
Tax and surcharges	(3)	**6,606**	5,813
Others		**3,373**	3,863
Total		**260,275**	229,897

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 OPERATING EXPENSES (Continued)

(1) Staff costs

	Year ended 31 December	
	2021	2020
Short-term employee benefits		
Salaries, bonuses, allowance and subsidies	**89,580**	80,854
Housing funds	**9,347**	8,933
Social insurance	**5,859**	4,713
Including: Medical insurance	**5,480**	4,398
Maternity insurance	**222**	205
Employment injury insurance	**157**	110
Labor union fees and staff education expenses	**4,001**	3,613
Others	**10,963**	10,595
Subtotal	**119,750**	108,708
Defined contribution benefits	**18,188**	14,632
Early retirement benefits	**15**	5
Total	**137,953**	123,345

(2) Included in general operating and administrative expenses is auditor's remuneration of RMB106 million for the year, consisting of RMB105 million for financial statements audit service and RMB1 million for non-audit professional service (2020: RMB146 million for the year, consisting of RMB137 million for financial statements audit service and RMB9 million for non-audit professional service).

(3) City construction and maintenance tax is calculated at 1%, 5% or 7% of VAT and sales taxes for the Group's Domestic Operations.

Education surcharge is calculated at 3%, while local education surcharge is calculated at 2% of VAT and sales taxes for the Group's Domestic Operations.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB):*

		Year ended 31 December 2021				
Item	Notes	Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xx)	Total
Executive Directors						
Gu Shu	(i)	–	619	120	81	820
Zhang Qingsong		–	619	120	81	820
Zhang Xuguang		–	557	113	81	751
Lin Li	(ii)	–	465	95	66	626
Independent Non-Executive Directors						
Wang Xinxin		381	–	–	–	381
Huang Zhenzhong		380	–	–	–	380
Ms. LEUNG KO May Yee		380	–	–	–	380
Liu Shouying		360	–	–	–	360
Wu Liansheng	(iii)	34	–	–	–	34
Non-Executive Directors						
Liao Luming		–	–	–	–	–
Li Wei		–	–	–	–	–
Zhou Ji	(iv)	–	–	–	–	–
Liu Xiaopeng	(v)	–	–	–	–	–
Xiao Xiang	(vi)	–	–	–	–	–
Supervisors						
Wang Jingdong		–	619	120	81	820
Fan Jianqiang		–	–	–	–	–
Shao Lihong		50	–	–	–	50
Wu Gang		50	–	–	–	50
Huang Tao	(vii)	–	–	–	–	–
Liu Hongxia		300	–	–	–	300
Xu Xianglin	(viii)	46	–	–	–	46
Wang Xixin	(ix)	39	–	–	–	39
Senior Management						
Cui Yong		–	557	113	81	751
Xu Han		–	557	117	84	758
Zhang Yi	(x)	–	186	38	27	251
Li Zhicheng		–	984	211	80	1,275
Han Guoqiang		–	981	183	81	1,245
Executive Director resigned						
Zhou Mubing	(xi)	–	354	120	81	555
Non-Executive Directors resigned						
Wu JiangTao	(xii)	–	–	–	–	–
Xiao Xing	(xiii)	370	–	–	–	370
Zhu Hailin	(xiv)	–	–	–	–	–
Li Qiyun	(xv)	–	–	–	–	–
Supervisors resigned						
Xia Taili	(xvi)	50	–	–	–	50
Li Wang	(xvii)	242	–	–	–	242
Zhang Jie	(xviii)	268	–	–	–	268
Senior Management resigned						
Zhan Dongsheng	(xix)	–	232	49	34	315
Total		**2,950**	**6,730**	**1,399**	**858**	**11,937**

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): (Continued)*

(i) Gu Shu was elected Executive Director effective 28 January 2021 and elected Chairman of the Board of Directors effective 9 February 2021.

(ii) Lin Li was elected Executive Vice President effective 31 March 2021 and Executive Director effective 15 June 2021.

(iii) Wu Liansheng was elected Independent Non-Executive Director effective 19 November 2021.

(iv) Zhou Ji was elected Non-Executive Director effective 5 March 2021.

(v) Liu Xiaopeng was elected Non-Executive Director effective 20 January 2022.

(vi) Xiao Xiang was elected Non-Executive Director effective 20 January 2022.

(vii) Huang Tao was elected Supervisor Representing Employees effective 26 July 2021.

(viii) Xu Xianglin was elected External Supervisor effective 11 November 2021.

(ix) Wang Xixin was elected External Supervisor effective 11 November 2021.

(x) Zhang Yi was elected Executive Vice President effective 4 November 2021.

(xi) Zhou Mubing ceased to be Chairman of the Board of Directors and Executive Director effective 7 January 2021.

(xii) Wu Jiangtao ceased to be Non-Executive Director effective 27 July 2021.

(xiii) Xiao Xing ceased to be Independent Non-Executive Director effective 19 November 2021.

(xiv) Zhu Hailin ceased to be Non-Executive Director effective 28 September 2021.

(xv) Li Qiyun ceased to be Non-Executive Director effective 31 December 2021.

(xvi) Xia Taili ceased to be Supervisor Representing Employees effective 20 August 2021.

(xvii) Li Wang ceased to be External Supervisor effective 11 November 2021.

(xviii) Zhang Jie ceased to be External Supervisor effective 11 November 2021.

(xix) Zhan Dongsheng ceased to be Executive Vice President effective 11 June 2021.

(xx) Other benefits in kind include the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities.

The total compensation packages for the above Executive Directors, Supervisors and Senior Management for the year ended 31 December 2021 have not yet been finalized in accordance with regulations of the relevant authorities in the PRC at the date of this consolidated financial statements. The final compensation will be disclosed in a separate announcement when determined.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (continued)

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): (Continued)*

		Year ended 31 December 2020 (Restated)				
Item	Notes	Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xiii)	Total
Executive Directors						
Zhou Mubing	(i)	–	1,475	79	75	1,629
Zhang Qingsong	(ii)	–	1,112	79	75	1,266
Zhang Xuguang	(iii)	–	967	75	75	1,117
Independent Non-Executive Directors						
Xiao Xing		410	–	–	–	410
Wang Xinxin		380	–	–	–	380
Huang Zhenzhong		380	–	–	–	380
Ms. LEUNG KO May Yee		370	–	–	–	370
Liu Shouying		360	–	–	–	360
Non-Executive Directors						
Liao Luming		–	–	–	–	–
Li Qiyun		–	–	–	–	–
Li Wei		–	–	–	–	–
Wu Jiangtao		–	–	–	–	–
Zhu Hailin	(iv)	–	–	–	–	–
Supervisors						
Wang Jingdong		–	1,340	79	75	1,494
Xia Taili		50	–	–	–	50
Shao Lihong		50	–	–	–	50
Wu Gang		50	–	–	–	50
Li Wang		280	–	–	–	280
Zhang Jie		310	–	–	–	310
Liu Hongxia		300	–	–	–	300
Fan Jianqiang	(v)	–	–	–	–	–
Senior Management						
Zhan Dongsheng		–	1,132	75	104	1,311
Cui Yong		–	1,099	75	75	1,249
Xu Han	(vi)	–	556	51	44	651
Li Zhicheng		–	1,946	137	75	2,158
Han Guoqiang	(vii)	–	162	11	7	180

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): (Continued)*

		Year ended 31 December 2020 (Restated)				
Item	Notes	Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xiii)	Total
Executive Director resigned						
Zhang Keqiu	(viii)	–	1,247	68	68	1,383
Non-Executive Directors resigned						
Chen Jianbo	(ix)	–	–	–	–	–
Xu Jiandong	(x)	–	–	–	–	–
Supervisor resigned						
Wang Xingchun	(xi)	–	–	–	–	–
Senior Management resigned						
Zhou Wanfu	(xii)	–	486	32	18	536
Total		2,940	11,522	761	691	15,914

(i) Zhou Mubing ceased to be Chairman of the Board of Directors and Executive Director effective 7 January 2021.

(ii) Zhang Qingsong was elected Vice Chairman of the Board of Directors and Executive Director effective 14 January 2020.

(iii) Zhang Xuguang was elected Executive Director effective 12 October 2020.

(iv) Zhu Hailin was elected Non-Executive Director effective 29 June 2020.

(v) Fan Jianqiang was elected Supervisor Representing Shareholders effective 27 November 2020.

(vi) Xu Han was elected Executive Vice President effective 12 October 2020.

(vii) Han Guoqiang was elected Secretary of the Board of Directors effective 3 November 2020.

(viii) Zhang Keqiu ceased to be Executive Director and Executive Vice President effective 30 November 2020.

(ix) Chen Jianbo ceased to be Non-Executive Director effective 29 June 2020.

(x) Xu Jiandong ceased to be Non-Executive Director effective 18 June 2020.

(xi) Wang Xingchun ceased to be Supervisor Representing Shareholders effective 29 June 2020.

(xii) Zhou Wanfu ceased to be Secretary of the Board of Directors and the company secretary effective 24 March 2020.

(xiii) Other benefits in kind include the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(2) Five individuals with the highest emoluments in the Group

(i) Of the five individuals with the highest emoluments in the Group, none of them are Directors, Supervisors or Senior Management whose emoluments are disclosed above. The emoluments of the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2021 and 31 December 2020 were as follows:

	Year ended 31 December	
	2021	2020
Basic salaries and allowance	**13**	15
Discretionary bonuses	**18**	12
Contribution to retirement benefit schemes and others	**1**	1
Total	**32**	28

(ii) The number of these five individuals whose emoluments fell within the following bands are as follows:

	Year ended 31 December	
	2021	2020
RMB4,500,001 to RMB5,000,000 yuan	**2**	3
RMB5,000,001 to RMB5,500,000 yuan	**–**	–
RMB5,500,001 to RMB6,000,000 yuan	**–**	–
RMB6,000,001 to RMB6,500,000 yuan	**–**	1
RMB6,500,001 to RMB7,000,000 yuan	**1**	–
RMB7,000,001 to RMB7,500,000 yuan	**–**	–
RMB7,500,001 to RMB8,000,000 yuan	**1**	1
RMB8,000,001 to RMB8,500,000 yuan	**1**	–

For the years ended 31 December 2021 and 31 December 2020, no emolument was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. For the years ended 31 December 2021 and 31 December 2020, none of the five highest paid individuals waived any emolument.

(3) Other benefits and interests of Directors and Supervisors pursuant to the Hong Kong Companies Ordinance (Cap.622).

For the years ended 31 December 2021 and 31 December 2020, no emolument was paid by the Group to any of the Directors and Supervisors as an inducement to join or upon joining the Group or as a compensation for loss of office. Except for the Annuity Scheme and Pension Scheme (Note II 7 Employee Benefits), there were no other retirement benefits for Directors or Supervisors, or consideration provided to third parties for making available Directors' or Supervisors' services; and none of the Directors or Supervisors waived any emolument, or had material interests, whether directly or indirectly, in any material transactions, arrangements or contracts in relation to the Group's business for the years ended 31 December 2021 and 31 December 2020.

The Group enters into credit transactions with the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors at arm's length in the ordinary course of business. For the years ended 31 December 2021 and 31 December 2020 and as at 31 December 2021 and 31 December 2020, the respective balances of loans and advances from the Group to Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors were not significant. The Group did not provide any guarantee or security to the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors in respect of their loans, quasi-loans or credit transactions.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 CREDIT IMPAIRMENT LOSSES

	Year ended 31 December	
	2021	2020
Loans and advances to customers	**168,999**	138,988
Financial investments		
Debt instrument investments at amortized cost	**2,947**	6,796
Other debt instruments investments at fair value through other comprehensive income	**1,588**	5,070
Provision for guarantees and commitments	**(15,393)**	10,575
Placements with and loans to banks and other financial institutions	**(15)**	1,419
Deposits with banks and other financial institutions	**(442)**	864
Financial assets held under resale agreements	**367**	936
Others	**7,835**	51
Total	**165,886**	164,699

9 INCOME TAX EXPENSE

	Year ended 31 December	
	2021	2020
Current income tax		
— PRC Enterprise Income Tax	**64,852**	58,220
— Hong Kong SAR Income Tax	**954**	664
— Other jurisdictions Income Tax	**239**	(26)
Subtotal	**66,045**	58,858
Deferred tax (Note IV 22)	**(12,101)**	(10,208)
Total	**53,944**	48,650

PRC Enterprise Income Tax is calculated at 25% of the estimated taxable profit for both years, and also includes supplementary PRC tax on Overseas Operations as determined in accordance with the relevant PRC income tax rules and regulations. Pre-tax deduction items of enterprise income tax are governed by the relevant tax regulations in Chinese mainland. Taxation arising in other jurisdictions (including Hong Kong SAR) is calculated at the rates prevailing in the relevant jurisdictions.

The tax charges for the years ended 31 December 2021 and 31 December 2020 can be reconciled to the profit per the consolidated income statement as follows:

		Year ended 31 December	
	Note	**2021**	2020
Profit before tax		**295,880**	265,050
Tax calculated at applicable PRC statutory tax rate of 25%		**73,970**	66,263
Tax effect of income not taxable for tax purpose	(1)	**(42,983)**	(36,294)
Tax effect of costs, expenses and losses not deductible for tax purpose		**23,311**	20,061
Tax effect of perpetual bond interest expense		**(2,434)**	(1,300)
Effect of different tax rates in other jurisdictions		**(48)**	(80)
Effect of others		**2,128**	–
Income tax expense		**53,944**	48,650

(1) Non-taxable income primarily includes interest income from PRC treasury bonds and municipal government bonds.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 DIVIDENDS

	Notes	Year ended 31 December 2021	2020
Dividends on ordinary shares declared			
Cash dividend related to 2020	(1)	**64,782**	–
Cash dividend related to 2019	(2)	**–**	63,662
		64,782	63,662
Dividends on preference shares declared and paid	(3)	**4,064**	4,328
Interest on perpetual bonds declared and paid	(4)	**9,734**	5,202

(1) *Distribution of final dividend for 2020*

A cash dividend of RMB0.1851 per ordinary share related to 2020, amounting to RMB64,782 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2020 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 27 May 2021.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2021.

(2) *Distribution of final dividend for 2019*

A cash dividend of RMB0.1819 per ordinary share related to 2019, amounting to RMB63,662 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2019 as determined in accordance with the PRC GAAP, at the annual general meeting held on 29 June 2020.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2020.

(3) *Distribution of dividend on preference shares for 2021*

A cash dividend at the dividend rate of 4.84% per annum related to the second tranche of preference shares of 2020 to 2021 amounting to RMB1,936 million in total was approved at the Board of Directors' Meeting held on 27 January 2021 and distributed on 11 March 2021.

A cash dividend at the dividend rate of 5.32% per annum related to the first tranche of preference shares of 2020 to 2021 amounting to RMB2,128 million in total was approved at the Board of Directors' Meeting held on 30 August 2021 and distributed on 5 November 2021.

Distribution of dividend on preference shares for 2020

A cash dividend at the dividend rate of 5.50% per annum related to the second tranche of preference shares of 2019 to 2020 amounting to RMB2,200 million in total was approved at the Board of Directors' Meeting held on 10 January 2020 and distributed on 11 March 2020.

A cash dividend at the dividend rate of 5.32% per annum related to the first tranche of preference shares of 2019 to 2020 amounting to RMB2,128 million in total was approved at the Board of Directors' Meeting held on 3 July 2020 and distributed on 5 November 2020.

(4) *Distribution of interest on perpetual bonds for 2021*

Perpetual bonds listed in the statement of financial position refer to undated tier 1 capital bonds. An interest at the interest rate of 3.48% per annum related to the first tranche of perpetual bonds of RMB85 billion amounting to RMB2,958 million in total was declared on 7 May 2021 and distributed on 12 May 2021.

An interest at the interest rate of 4.39% per annum related to the first tranche of perpetual bonds of RMB85 billion amounting to RMB3,731 million in total was declared on 17 August 2021 and distributed on 20 August 2021.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 DIVIDENDS (Continued)

An interest at the interest rate of 4.50% per annum related to the second tranche of perpetual bonds of RMB35 billion amounting to RMB1,575 million in total was declared on 19 August 2021 and distributed on 24 August 2021.

An interest at the interest rate of 4.20% per annum related to the second tranche of perpetual bonds of RMB35 billion amounting to RMB1,470 million in total was declared on 2 September 2021 and distributed on 6 September 2021.

Distribution of interest on perpetual bonds for 2020

Perpetual bonds listed in the statement of financial position refer to undated tier 1 capital bonds. An interest at the interest rate of 4.39% per annum related to the first tranche of perpetual bonds of RMB85 billion amounting to RMB3,732 million in total was declared on 17 August 2020 and distributed on 20 August 2020.

An interest at the interest rate of 4.20% per annum related to the second tranche of perpetual bonds of RMB35 billion amounting to RMB1,470 million in total was declared on 2 September 2020 and distributed on 7 September 2020.

(5) A final dividend of RMB0.2068 per ordinary share in respect of the year ended 31 December 2021 totaling RMB72,376 million has been proposed by the directors and is subject to approval by the ordinary equity holders in the annual general meeting.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is as follows:

	Year ended 31 December	
	2021	2020
Earnings:		
Profit for the year attributable to equity holders of the Bank	**241,183**	215,925
Less: profit for the year attributable to other equity instruments holders of the Bank	**(13,798)**	(9,530)
Profit for the year attributable to ordinary equity holders of the Bank	**227,385**	206,395
Number of shares:		
Weighted average number of ordinary shares in issue (in millions)	**349,983**	349,983
Basic and diluted earnings per share (RMB yuan)	**0.65**	0.59

For the years ended 31 December 2015 and 31 December 2014, the Bank issued two non-cumulative preference shares, respectively, and the specific terms are included in Note IV 33 Other equity instruments.

For the year ended 31 December 2021, 31 December 2020 and 31 December 2019, the Bank issued five non-cumulative undated tier 1 capital bonds, respectively, and the specific terms are included in Note IV 33 Other equity instruments.

For the purpose of calculating basic earnings per share, cash dividends of RMB4,064 million of non-cumulative preference shares declared in respect of the year of 2021 and interests of RMB9,734 million of non-cumulative undated tier 1 capital bonds in respect of 2021 were deducted from the profit for the year attributable to equity holders of the Bank (2020: cash dividends of RMB4,328 million of non-cumulative preference shares and interests of RMB5,202 million of non-cumulative undated tier 1 capital bonds).

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the years ended 31 December 2021 and 31 December 2020, and therefore the conversion feature of preference shares has no dilutive effect on earnings per share calculation.

12 CASH AND BALANCES WITH CENTRAL BANKS

		As at 31 December	
	Notes	**2021**	2020
Cash		**74,610**	76,281
Mandatory reserve deposits with central banks	(1)	**1,973,077**	2,126,330
Surplus reserve deposits with central banks	(2)	**101,010**	40,494
Other deposits with central banks	(3)	**171,765**	193,142
Subtotal		**2,320,462**	2,436,247
Accrued interest		**944**	1,028
Total		**2,321,406**	2,437,275

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 CASH AND BALANCES WITH CENTRAL BANKS (Continued)

(1) The Group places mandatory reserve deposits with the PBOC and overseas regulatory bodies. These include RMB reserve deposits and foreign currency reserve deposits that are not available for use in the Group's daily operations.

As at 31 December 2021, the mandatory deposit reserve ratios of the domestic branches of the Bank in respect of customer deposits denominated in RMB and foreign currencies were consistent with the requirement of the PBOC. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group are determined by the PBOC. The amounts of mandatory reserve deposits placed with the central banks of those countries or regions outside Chinese mainland are determined by local jurisdictions.

(2) Surplus reserve deposits with central banks include funds for the purpose of cash settlement and other kinds of unrestricted deposits.

(3) Other deposits with central banks primarily represent fiscal deposits and foreign exchange risk reserve placed with the PBOC that are not available for use in the Group's daily operations.

13 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2021	2020
Deposits with:		
Domestic banks	**184,968**	391,366
Other domestic financial institutions	**10,345**	13,511
Overseas banks	**22,507**	27,826
Subtotal	**217,820**	432,703
Accrued interest	**2,140**	3,387
Allowance for impairment losses	**(1,460)**	(1,905)
Deposits with banks and other financial institutions, net	**218,500**	434,185

14 PLACEMENTS WITH AND LOANS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2021	2020
Placements with and loans to:		
Domestic banks	**250,953**	148,136
Other domestic financial institutions	**93,315**	219,887
Overseas banks and other financial institutions	**104,295**	179,927
Subtotal	**448,563**	547,950
Accrued interest	**1,080**	1,750
Allowance for impairment losses	**(2,699)**	(2,752)
Placements with and loans to banks and other financial institutions, net	**446,944**	546,948

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group primarily enters into foreign exchange rate, interest rate and precious metal derivative contracts related to trading, asset and liability management, and customer initiated transactions.

The contractual/notional amounts and fair values of the derivative financial instruments entered into by the Group are set out in the following tables. The contractual / notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognized in the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregated fair values of derivative financial assets and liabilities can fluctuate significantly.

Certain financial assets and financial liabilities of the Group are subject to enforceable master net arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. The Group did not offset these financial assets and financial liabilities on a net basis. As at 31 December 2021 and 31 December 2020, the Group does not hold any other financial instruments, other than derivatives, that are subject to master netting arrangements or similar agreements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

	31 December 2021		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	**2,145,080**	**18,983**	**(14,402)**
Currency options	**51,631**	**1,133**	**(332)**
Subtotal		**20,116**	**(14,734)**
Interest rate derivatives			
Interest rate swaps	**271,371**	**1,141**	**(2,366)**
Precious metal contracts	**145,374**	**721**	**(2,237)**
Total derivative financial assets and liabilities		**21,978**	**(19,337)**

	31 December 2020		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	2,411,639	54,466	(57,312)
Currency options	70,259	3,721	(444)
Subtotal		58,187	(57,756)
Interest rate derivatives			
Interest rate swaps	352,044	1,009	(4,357)
Precious metal contracts and others	155,555	2,741	(3,169)
Total derivative financial assets and liabilities		61,937	(65,282)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

Credit risk weighted amount for derivative transaction counterparties represents the counterparty credit risk associated with derivative transactions and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC which was effective from 1 January 2013 and "Measurement Rule of Counterparty Default Risk Weighted Assets on Derivatives" issued by the CBIRC which was effective from 1 January 2019,and is dependent on, among other factors, creditworthiness of customers and maturity characteristics of each type of contract. As at 31 December 2021 and 31 December 2020, the credit risk weighted amount for derivative transaction counterparties was measured under the Internal Ratings-Based approach.

	As at 31 December	
	2021	2020
Counterparty credit default risk-weighted assets	**49,277**	74,562
Credit value adjustment risk-weighted assets	**6,943**	11,905
Total	**56,220**	86,467

(1) Fair value hedges

The following designated fair value hedging instruments are included in the derivative financial instruments disclosed above.

	31 December 2021		
	Contractual/ notional amount	**Fair value**	
		Assets	**Liabilities**
Interest rate swaps	**48,716**	**33**	**(1,104)**

	31 December 2020		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Interest rate swaps	63,256	18	(2,860)

The Group uses interest rate swaps to hedge against changes arising from changes in interest rates in fair value of loans and advances to customers, other debt instrument investments at fair value through other comprehensive income.

The Group's net gains/(losses) on fair value hedges are as follow:

	Year ended 31 December	
	2021	2020
Net gains/(losses) on		
— hedging instruments	**1,599**	(1,996)
— hedged items	**(1,566)**	1,915

The gains and losses arising from the ineffective portion of fair value hedges were immaterial in 2021 and 2020.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

(1) *Fair value hedges* (Continued)

The following table shows maturity details with notional amount of hedging instruments disclosed above:

	Fair value hedges					
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
31 December 2021	**861**	**3,958**	**9,203**	**30,412**	**4,282**	**48,716**
31 December 2020	757	1,747	9,914	39,239	11,599	63,256

The following table sets out the details of the hedged items covered by the Group's fair value hedging strategies:

	31 December 2021				
	Carrying amount of hedged items		**Accumulated amount of fair value adjustments on the hedged items**		**Line items in the statement of financial position**
	Assets	**Liabilities**	**Assets**	**Liabilities**	
Bonds	**51,356**	**–**	**–**	**–**	**Other debt instrument investments at fair value through other comprehensive income**
Loans	**2,551**	**–**	**52**	**–**	**Loans and advances to customers**
Total	**53,907**	**–**	**52**	**–**	

	31 December 2020				
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items		Line items in the statement of financial position
	Assets	Liabilities	Assets	Liabilities	
Bonds	63,801	–	–	–	Other debt instrument investments at fair value through other comprehensive income
Loans	4,595	–	167	–	Loans and advances to customers
Total	68,396	–	167	–	

(2) *Cash flow hedges*

The Group uses interest rate swaps to hedge against exposures to cash flow variability primarily from interest rate risks of debt securities issued. As at 31 December 2021, the Group did not have cash flow hedge (In 2020, the Group's net gains from the cash flow hedge of RMB24 million was recognized in other comprehensive income and there exists no ineffective portion of cash flow hedge).

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 31 December	
	2021	2020
Analyzed by collateral type:		
Debt securities	**780,571**	761,081
Bills	**59,378**	56,801
Subtotal	**839,949**	817,882
Accrued interest	**597**	866
Allowance for impairment losses	**(2,909)**	(2,542)
Financial assets held under resale agreements, net	**837,637**	816,206

The collateral received in connection with financial assets held under resale agreement is disclosed in Note IV 42 Contingent Liabilities and Commitments — Collateral.

17 LOANS AND ADVANCES TO CUSTOMERS

17.1 Analyzed by measurement basis

	Notes	As at 31 December	
		2021	2020
Measured at amortized cost	(1)	**15,951,755**	13,974,384
Measured at fair value through other comprehensive income	(2)	**502,748**	577,997
Measured at fair value through profit or Loss	(3)	**–**	52
Total		**16,454,503**	14,552,433

(1) *Measured at amortized cost:*

	As at 31 December	
	2021	*2020*
Corporate loans and advances		
Loans and advances	***9,496,436***	*8,339,235*
Personal loans and advances	***7,136,568***	*6,218,837*
Subtotal	***16,633,004***	*14,558,072*
Accrued interest	***39,321***	*34,321*
Allowance for impairment losses	***(720,570)***	*(618,009)*
Carrying amount of loans and advances to customers measured at amortized cost	***15,951,755***	*13,974,384*

(2) *Measured at fair value through other comprehensive income:*

	As at 31 December	
	2021	*2020*
Corporate loans and advances		
Loans and advances	***78,419***	*188,522*
Discounted bills	***424,329***	*389,475*
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	***502,748***	*577,997*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

17.1 Analyzed by measurement basis (Continued)

(3) *Measured at fair value through profit or loss:*

	As at 31 December	
	2021	2020
Corporate loans and advances	–	52

17.2 Analyzed by ECL assessment method

	Year ended 31 December 2021			
	Stage I	**Stage II**	**Stage III (i)**	
	12m ECL	**Lifetime ECL**		**Total**
Gross loans and advances measured at amortized cost	**16,157,097**	**269,446**	**245,782**	**16,672,325**
Allowance for impairment losses	**(500,117)**	**(57,494)**	**(162,959)**	**(720,570)**
Loans and advances to customers, net	**15,656,980**	**211,952**	**82,823**	**15,951,755**
Loans and advances measured at fair value through other comprehensive income	**502,701**	**47**	**–**	**502,748**
Allowance for impairment losses of loans and advances to customers measured at fair value through other comprehensive income	**(16,108)**	**(9)**	**–**	**(16,117)**

	Year ended 31 December 2020			
	Stage I	Stage II	Stage III (i)	
	12m ECL	Lifetime ECL		Total
Gross loans and advances measured at amortized cost	13,995,576	325,383	237,113	14,558,072
Allowance for impairment losses	(397,768)	(60,700)	(159,541)	(618,009)
Loans and advances to customers, net	13,597,808	264,683	77,572	13,940,063
Loans and advances measured at fair value through other comprehensive income	577,972	25	–	577,997
Allowance for impairment losses of loans and advances to customers measured at fair value through other comprehensive income	(13,195)	(2)	–	(13,197)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.2 Analyzed by ECL assessment method (Continued)

The expected credit loss ("ECL") for corporate loans and advances in stage I and stage II, as well as all personal loans and advances, were measured in accordance with the risk parameters modelling method. The ECL for corporate loans and advances in Stage III were calculated using the discounted cash flow method. For details, see Note IV 44.1 Credit Risk.

17.3 Analyzed by movements in loss allowance

The movements of loss allowance is mainly affected by:

— Transfers between stages due to loans and advances to customers experiencing significant increases (or decreases) in credit risk or becoming credit-impaired, and the corresponding transfer of the measurement basis of the loss allowance between 12 months and the entire lifetime ECL;

— Allowance for new loans and advances to customers recognized;

— Remeasurement includes the impact of changes in model assumptions, updates of model parameters, changes in probability of default and loss given default; changes in ECL due to transfer of loans and advances to customers between stages; changes in ECL due to unwinding of discount over time; changes in foreign exchange translations for assets denominated in foreign currencies and other movements;

— The reversal of allowances caused by repayment, write-offs and loans and advances to customers transferred out.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.3 Analyzed by movements in loss allowance (Continued)

The following table shows the impact of above factors on the allowance for impairment losses:

	Year ended 31 December 2021			
	Stage I	Stage II	Stage III	
Corporate loans and advances	**12m ECL (i)**	**Lifetime ECL (ii)**		**Total**
1 January 2021	282,549	53,699	135,634	471,882
Transfer:				
Stage I to stage II	(6,338)	6,338	–	–
Stage II to stage III	–	(21,124)	21,124	–
Stage II to stage I	2,448	(2,448)	–	–
Stage III to stage II	–	1,151	(1,151)	–
Originated or purchased financial assets	115,643	–	–	115,643
Remeasurement	19,839	29,179	50,760	99,778
Repayment and transfer out	(61,904)	(16,535)	(19,730)	(98,169)
Write-offs	–	–	(45,753)	(45,753)
31 December 2021	352,237	50,260	140,884	543,381

	Year ended 31 December 2021			
	Stage I	Stage II	Stage III	
Personal loans and advances	**12m ECL (iii)**	**Lifetime ECL (iv)**		**Total**
1 January 2021	128,414	7,003	23,907	159,324
Transfer:				
Stage I to stage II	(1,899)	1,899	–	–
Stage II to stage III	–	(4,141)	4,141	–
Stage II to stage I	2,320	(2,320)	–	–
Stage III to stage II	–	1,269	(1,269)	–
Originated or purchased financial assets	69,982	–	–	69,982
Remeasurement	13,434	6,830	11,106	31,370
Repayment and transfer out	(48,263)	(3,297)	(2,311)	(53,871)
Write-offs	–	–	(13,499)	(13,499)
31 December 2021	163,988	7,243	22,075	193,306

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.3 Analyzed by movements in loss allowance (Continued)

The following table shows the impact of above factors on the allowance for impairment losses: (Continued):

	Year ended 31 December 2020			
	Stage I	Stage II	Stage III	
Corporate loans and advances	12m ECL (v)	Lifetime ECL (vi)		Total
1 January 2020	249,600	53,391	110,480	413,471
Transfer:				
Stage I to stage II	(9,141)	9,141	–	–
Stage II to stage III	–	(24,807)	24,807	–
Stage II to stage I	3,555	(3,555)	–	–
Stage III to stage II	–	2,875	(2,875)	–
Originated or purchased financial assets	98,077	–	–	98,077
Remeasurement	(4,839)	23,299	63,387	81,847
Repayment and transfer out	(54,703)	(6,645)	(23,566)	(84,914)
Write-offs	–	–	(36,599)	(36,599)
31 December 2020	282,549	53,699	135,634	471,882

	Year ended 31 December 2020			
	Stage I	Stage II	Stage III	
Personal loans and advances	12m ECL (vii)	Lifetime ECL (viii)		Total
1 January 2020	114,445	4,329	20,870	139,644
Transfer:				
Stage I to stage II	(2,535)	2,535	–	–
Stage II to stage III	–	(6,305)	6,305	–
Stage II to stage I	755	(755)	–	–
Stage III to stage II	–	523	(523)	–
Originated or purchased financial assets	55,463	–	–	55,463
Remeasurement	644	11,846	18,501	30,991
Repayment and transfer out	(40,358)	(5,170)	(8,470)	(53,998)
Write-offs	–	–	(12,776)	(12,776)
31 December 2020	128,414	7,003	23,907	159,324

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.3 Analyzed by movements in loss allowance (Continued)

(i) *In 2021, the changes of the Group's loss allowance of corporate loans and advances in Stage I, was mainly driven by the net increase of about 13% in the book balance of the corporate loans and advances compared with 1 January 2021, and the increase of the provision ratio.*

(ii) *In 2021, the changes of the Group's loss allowance of corporate loans and advances in Stage II were mainly driven by the net decrease of about 21% in the book balance of the corporate loans and advances in Stage II compared with 1 January 2021. Its impact on the provision for losses was partially offset by an increase in the proportion of impairments related to loans and advances in 2021.*

In 2021, the changes of Group's loss allowance of corporate loans and advances in Stage III were mainly driven by both the net transfer between stages which led to a net increase of nearly 5% in the corresponding gross amount compared with 1 January 2021, and the increase of provision ratio caused by the transfer of relevant loans and advances from Stage II to Stage III. This impact was partially offset by the repayment, transfer out and write-offs of corporate loans and advances.

(iii) *In 2021, the changes of the Group's loss allowance of personal loans and advances in Stage I were mainly driven by both a net increase of nearly 15% in the corresponding gross amount, and the increase of provision ratio.*

(iv) *In 2021, the changes in loss allowance of the Group's personal loans and advances in Stage II were mainly driven by both the net transfer between Stages which led to a net increase of nearly 8% in the corresponding gross amount and increase in the proportion of provision resulting from transfer of relevant loans and advances from Stage I to Stage II. This impact was partially offset by the repayment of relevant loans and advances.*

In 2021, the changes in loss allowance of the Group's personal loans and advances in Stage III were mainly driven by both the net transfer between Stages which led to a net decrease of nearly 5% in the corresponding gross amount and increase in the proportion of provision resulting from transfer of relevant loans and advances from Stage II to Stage III. This impact was offset partially by the repayment, transfer out and write-offs of relevant loans and advances.

(v) *In 2020, the provision rate of the Group's corporate loans and advances in Stage I remained stable. The changes of the Group's loss allowance of corporate loans and advances in Stage I were mainly driven by a net increase of nearly 13% in the corresponding gross amount.*

(vi) *In 2020, the changes of the Group's loss allowance of corporate loans and advances in Stage II were mainly driven by a small increase of the provision rate of the Group's corporate loans and advances in Stage II. There was no significant change in the gross amount of Stage II corporate loans and advances as of 31 December 2020 compared to 1 January 2020.*

In 2020, the changes of Group's loss allowance of corporate loans and advances in Stage III were mainly driven by both the net transfer between stages which led to a net increase of nearly 28% in the corresponding gross amount, and the net transfer in from Stage II and subsequent remeasurement. This impact was partially offset by the repayment, transfer out and write-offs of Stage III corporate loans and advances.

(vii) *In 2020, the provision rate of the Group's personal loans and advances in Stage I remained stable. The changes of the Group's loss allowance of personal loans and advances in Stage I were mainly driven a net increase of nearly 15% in the corresponding gross amount.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.3 Analyzed by movements in loss allowance (Continued)

(viii) In 2020, the changes in loss allowance of the Group's personal loans and advances in Stage II were mainly driven by both the net transfer between Stages which led to a net increase of nearly 24% in the corresponding gross amount and the net transfer in from Stage I and subsequent remeasurement. This impact was offset partially by the repayment of Stage II personal loans and advances.

In 2020, the changes in loss allowance of the Group's personal loans and advances in Stage III were mainly driven by both the net transfer between Stages which led to a net increase of nearly 21% in the corresponding gross amount and the net transfer in from Stage II and subsequent remeasurement. This impact was offset partially by the repayment, transfer out and write-offs of Stage III personal loans and advances.

18 FINANCIAL INVESTMENTS

		As at 31 December	
	Notes	2021	2020
Financial assets at fair value through profit or loss	18.1	**460,241**	583,069
Debt instrument investments at amortized cost	18.2	**6,372,522**	5,684,220
Other debt instrument and other equity investments at fair value through other comprehensive income	18.3	**1,397,280**	1,555,370
Total		**8,230,043**	7,822,659

18.1 Financial assets at fair value through profit or loss

		As at 31 December	
	Notes	2021	2020
Financial assets held for trading	(1)	**159,382**	223,960
Other financial assets at fair value through profit or loss	(2)	**298,546**	260,240
Financial assets designated at fair value through profit or loss	(3)	**2,313**	98,869
Total		**460,241**	583,069
Analyzed as:			
Listed in Hong Kong		**5,409**	4,613
Listed outside Hong Kong	(i)	**306,454**	390,444
Unlisted		**148,378**	188,012
Total		**460,241**	583,069

(i) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.1 Financial assets at fair value through profit or loss (Continued)

(1) Financial assets held for trading

	As at 31 December	
	2021	2020
Debt securities issued by:		
Governments	**8,925**	7,904
Public sector and quasi-governments	**25,144**	49,764
Financial institutions	**68,800**	79,243
Corporates	**25,268**	45,614
Subtotal	**128,137**	182,525
Precious metal contracts	**21,389**	21,959
Equity	**5,279**	4,944
Fund and others	**4,577**	14,532
Total	**159,382**	223,960

(2) Other financial assets at fair value through profit or loss (ii)

	As at 31 December	
	2021	2020
Debt securities issued by:		
Public sector and quasi-governments	**22,636**	25,372
Financial institutions	**131,578**	106,820
Corporates	**645**	1,816
Subtotal	**154,859**	134,008
Equity	**104,676**	97,401
Fund and others	**39,011**	28,831
Total	**298,546**	260,240

(ii) Other financial assets at fair value through profit or loss refer to financial assets that do not qualify for measurement at AC or FVOCI and are not held for trading, including bond investments, equity interests, funds, trust plans and asset management products of the Group.

(3) Financial assets designated at fair value through profit or loss (iii)

	As at 31 December	
	2021	2020
Debt securities issued by:		
Governments	**–**	9,440
Public sector and quasi-governments	**–**	18,071
Financial institutions	**1,009**	32,456
Corporates	**1,304**	3,899
Subtotal	**2,313**	63,866
Placements with and loans to banks and other financial institutions	**–**	27,935
Others	**–**	7,068
Total	**2,313**	98,869

(iii) Wealth management products with principal guaranteed by the Group designated at fair value through profit or loss have been settled before December 31, 2021.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.2 Debt instrument investments at amortized cost

	Notes	As at 31 December 2021	2020
Debt securities issued by:			
Governments		**4,117,564**	3,545,856
Public sector and quasi-governments		**1,506,965**	1,311,556
Financial institutions		**145,826**	204,310
Corporates		**100,576**	129,738
Subtotal of debt securities		**5,870,931**	5,191,460
Receivable from the MOF	(i)	**290,891**	290,891
Special government bonds	(ii)	**93,340**	93,348
Others	(iii)	**13,463**	14,413
Subtotal		**6,268,625**	5,590,112
Accrued interest		**122,924**	110,212
Allowance for impairment losses		**(19,027)**	(16,104)
Debt instrument investments at amortized cost, net		**6,372,522**	5,684,220
Analyzed as:			
Listed in Hong Kong		**19,994**	19,630
Listed outside Hong Kong	(iv)	**5,882,053**	5,304,920
Unlisted		**470,475**	359,670
Total		**6,372,522**	5,684,220

(i) The Group received a notice from the MOF in January 2020, clarifying that from 1 January 2020, the interest rate of the unpaid payments will be verified year by year based on the rate of return of the five-year treasury bond of the previous year.

(ii) Special government bond refers to the non-transferable bond issued by the MOF in 1998 in the aggregated principal amount of RMB93.3 billion to the Predecessor Entity for capital replenishment. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum, starting from 1 December 2008.

(iii) Other debt instruments classified as receivables are primarily related to investment in unconsolidated structured entities held by the Group (Note IV 41(2)).

(iv) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.2 Debt instrument investments at amortized cost (Continued)

(1) Analyzed by assessment method of ECL

	Year ended 31 December 2021			
	Stage I	**Stage II**	**Stage III**	
	12m ECL	**Lifetime ECL**		**Total**
Gross debt instrument investments at amortized cost	**6,389,720**	**548**	**1,281**	**6,391,549**
Allowance for impairment losses	**(17,764)**	**–**	**(1,263)**	**(19,027)**
Debt instrument investments at amortized cost, net	**6,371,956**	**548**	**18**	**6,372,522**

	Year ended 31 December 2020			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
Gross debt instrument investments at amortized cost	5,697,187	2,064	1,073	5,700,324
Allowance for impairment losses	(14,850)	(190)	(1,064)	(16,104)
Debt instrument investments at amortized cost, net	5,682,337	1,874	9	5,684,220

Debt instrument investments at amortized cost in stage II and stage III mainly included corporates bond and other debt instruments investments.

(2) Analyzed by movements in loss allowance (i)

	Year ended 31 December 2021			
	Stage I	**Stage II**	**Stage III**	
	12m ECL	**Lifetime ECL**		**Total**
1 January 2021	**14,850**	**190**	**1,064**	**16,104**
Transfer:				
Stage I transfer to stage II	**(1)**	**1**	**–**	**–**
Stage I transfer to stage III	**(1)**	**–**	**1**	**–**
Stage II transfer to stage III	**–**	**(7)**	**7**	**–**
Stage II transfer to stage I	**30**	**(30)**	**–**	**–**
Originated or purchased financial assets	**3,996**	**–**	**–**	**3,996**
Remeasurement	**586**	**(1)**	**191**	**776**
Maturities or transfer out	**(1,696)**	**(153)**	**–**	**(1,849)**
31 December 2021	**17,764**	**–**	**1,263**	**19,027**

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.2 Debt instrument investments at amortized cost (Continued)

(2) Analyzed by movements in loss allowance (i) (Continued)

	Year ended 31 December 2020			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
1 January 2020	8,409	32	1,047	9,488
Transfer:				
Stage I transfer to stage II	(33)	33	–	–
Originated or purchased financial assets	4,321	–	–	4,321
Remeasurement	3,295	126	144	3,565
Maturities or transfer out	(1,142)	(1)	–	(1,143)
Write-offs	–	–	(127)	(127)
31 December 2020	14,850	190	1,064	16,104

(i) As at 31 December 2021, the increases of the Group's loss allowance of debt instrument investments at amortized cost were mainly due to the increase of debt instrument investments and the remeasurement of remained debt instrument investments in the year. The decreases of the Group's loss allowance of debt instrument investments at amortized cost were mainly due to maturities or transfer out of debt instrument investments.

18.3 Other debt instrument and other equity investments at fair value through other comprehensive income

		Year ended 31 December 2021			
	Notes	**Amortized cost of debt instruments/ cost of equity instruments**	**Fair value**	**Cumulative amount of change in fair value that is accrued to other comprehensive income**	**Cumulative amount of impairment**
Debt instruments	(1)	**1,373,040**	**1,392,691**	**19,651**	**(10,761)**
Equity instruments	(2)	**3,480**	**4,589**	**1,109**	**N/A**
Total		**1,376,520**	**1,397,280**	**20,760**	**(10,761)**

		Year ended 31 December 2020			
	Notes	Amortized cost of debt instruments/ cost of equity instruments	Fair value	Cumulative amount of change in fair value that is accrued to other comprehensive income	Cumulative amount of impairment
Debt instruments	(1)	1,537,987	1,551,439	13,452	(10,074)
Equity instruments	(2)	2,784	3,931	1,147	N/A
Total		1,540,771	1,555,370	14,599	(10,074)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.3 Other debt instrument and other equity investments at fair value through other comprehensive income (Continued)

(1) Debt instruments

(a) Analyzed by measurement basis

	Note	As at 31 December 2021	2020
Debt securities issued by:			
Governments		**649,753**	702,202
Public sector and quasi-governments		**241,828**	242,345
Financial institutions		**364,339**	453,176
Corporates		**105,803**	119,079
Subtotal		**1,361,723**	1,516,802
Others	(i)	**16,861**	18,902
Subtotal of debt instruments		**1,378,584**	1,535,704
Accrued interest		**14,107**	15,735
Total		**1,392,691**	1,551,439
Analyzed as:			
Listed in Hong Kong		**131,184**	102,413
Listed outside Hong Kong		**1,186,801**	1,399,150
Unlisted		**74,706**	49,876
Total		**1,392,691**	1,551,439

(i) Others primarily include investments in unconsolidated structured entities held by the Group (Note IV 41(2)), such as trust investment plans and debt investment plans.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.3 Other debt instrument and other equity investments at fair value through other comprehensive income (Continued)

(1) Debt instruments (Continued)

(b) Analyzed by assessment method of ECL

	Year ended 31 December 2021			
	Stage I 12m ECL	**Stage II Lifetime ECL**	**Stage III Lifetime ECL**	**Total**
Other debt instruments at fair value through other comprehensive income	**1,390,789**	**1,870**	**32**	**1,392,691**
Allowance for impairment losses	**(10,457)**	**(189)**	**(115)**	**(10,761)**

	Year ended 31 December 2020			
	Stage I 12m ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
Other debt instruments at fair value through other comprehensive income	1,545,343	6,030	66	1,551,439
Allowance for impairment losses	(9,536)	(432)	(106)	(10,074)

Other debt instruments at fair value through other comprehensive income in stage II and stage III mainly included financial institutions bond and corporates bond.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.3 Other debt instrument and other equity investments at fair value through other comprehensive income (Continued)

(1) Debt instruments (Continued)

(c) Analyzed by movements in loss allowance (ii)

	Year ended 31 December 2021			
	Stage I	Stage II	Stage III	Total
	12m ECL	Lifetime ECL		
1 January 2021	9,536	432	106	10,074
Transfer:				
Stage I transfer to stage II	(188)	188	–	–
Stage II transfer to stage I	307	(307)	–	–
Originated or purchased financial assets	4,809	–	–	4,809
Remeasurement	(50)	2	9	(39)
Maturities or transfer out	(3,957)	(126)	–	(4,083)
31 December 2021	10,457	189	115	10,761

	Year ended 31 December 2020			
	Stage I	Stage II	Stage III	Total
	12m ECL	Lifetime ECL		
1 January 2020	6,874	–	23	6,897
Transfer:				
Stage I transfer to stage II	(211)	211	–	–
Originated or purchased financial assets	4,055	–	–	4,055
Remeasurement	1,029	221	90	1,340
Maturities or transfer out	(2,211)	–	(7)	(2,218)
31 December 2020	9,536	432	106	10,074

(ii) As at 31 December 2021, the increases of the Group's loss allowance of other debt instrument investments at fair value through other comprehensive income were mainly due to the increase of debt instrument investments in the year. The decreases of the Group's loss allowance of other debt instrument investments at fair value through other comprehensive income were mainly due to maturities or transfer out of debt instrument investments and the remeasurement of remained debt instrument investments.

(2) Equity instruments

	As at 31 December	
	2021	2020
Financial institutions	4,448	3,811
Other enterprises	141	120
Total	4,589	3,931

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 INVESTMENT IN SUBSIDIARIES AND STRUCTURED ENTITIES

(1) Investment in subsidiaries

The following are the principal subsidiaries of the Bank as at 31 December 2021:

Name of entity	Notes	Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
China Agricultural Finance Co., Ltd.		1 November 1988	Hong Kong, PRC	HKD588,790,000	100.00	100.00	Investment holding
ABC International Holdings Limited		11 November 2009	Hong Kong, PRC	HKD4,113,392,450	100.00	100.00	Investment holding
ABC Financial Leasing Co., Ltd.		29 September 2010	Shanghai, PRC	RMB9,500,000,000	100.00	100.00	Financial leasing
Agricultural Bank of China (UK) Limited		29 November 2011	London, United Kingdom	USD100,000,002	100.00	100.00	Banking
ABC-CA Fund Management Co., Ltd.		18 March 2008	Shanghai, PRC	RMB1,750,000,001	51.67	51.67	Fund management
ABC Hexigten Rural Bank Limited Liability Company		12 August 2008	Inner Mongolia, PRC	RMB19,600,000	51.02	51.02	Banking
ABC Hubei Hanchuan Rural Bank Limited Liability Company	(i)	12 August 2008	Hubei, PRC	RMB31,000,000	50.00	66.67	Banking
ABC Jixi Rural Bank Limited Liability Company		25 May 2010	Anhui, PRC	RMB29,400,000	51.02	51.02	Banking
ABC Ansai Rural Bank Limited Liability Company		30 March 2010	Shaanxi, PRC	RMB40,000,000	51.00	51.00	Banking
ABC Zhejiang Yongkang Rural Bank Limited Liability Company		20 April 2012	Zhejiang, PRC	RMB210,000,000	51.00	51.00	Banking
ABC Xiamen Tong'an Rural Bank Limited Liability Company		24 May 2012	Fujian, PRC	RMB150,000,000	51.00	51.00	Banking
ABC Life Insurance Co., Ltd.	(ii)	19 December 2005	Beijing, PRC	RMB2,949,916,475	51.00	51.00	Life insurance
Agricultural Bank of China (Luxembourg) Limited		26 November 2014	Luxembourg, Luxembourg	EUR20,000,000	100.00	100.00	Banking
Agricultural Bank of China (Moscow) Limited		23 December 2014	Moscow, Russia	RUB7,556,038,271	100.00	100.00	Banking
ABC Financial Asset Investment Co., Ltd.	(iii)	1 August 2017	Beijing, PRC	RMB20,000,000,000	100.00	100.00	Debt-to-equity swap and related services
Agricultural Bank of China Wealth Management Co., Ltd.		25 July 2019	Beijing, PRC	RMB12,000,000,000	100.00	100.00	Wealth Management

During the year ended 31 December 2021 and 31 December 2020, there were no changes in the proportion of equity interest or voting rights the Bank held in its subsidiaries.

(i) *Two of the three directors on the board of ABC Hubei Hanchuan Rural Bank Limited Liability Company were appointed by the Bank. The Bank concluded that it has effective control over and has included this entity in its consolidation scope.*

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 INVESTMENT IN SUBSIDIARIES AND STRUCTURED ENTITIES (Continued)

(1) *Investment in subsidiaries* *(Continued)*

(ii) On 31 December 2012, the Bank acquired 51% of the issued share capital of Jiahe Life Insurance Co., Ltd. and renamed it as ABC Life Insurance Co., Ltd. ("ABC Life Insurance"). The Group recognized goodwill of RMB1,381 million as a result of this acquisition. During the year ended 31 December 2016, the Bank and other investors contributed additional capital totalling RMB3,761 million to ABC Life Insurance, comprising registered capital of RMB917 million and capital reserve of RMB2,844 million. After the capital injection, the proportion of equity interest and voting rights the Bank held in ABC Life Insurance remained at 51%.

The Bank tests the impairment of goodwill annually. When performing the impairment test, the Bank compares the carrying amount of the assets (including goodwill and the value of the mergers and acquisitions after deduction of amortization) with the recoverable amount. The excess of carrying amount over recoverable amount is recognized in profit or loss of the current period.

The recoverable amount of the assets is based on adjusted net assets, value of in-force business, value of one year of new business, new business multiplier, and other data approved by the management of ABC Life Insurance. The actuarial valuation method is applied and the risk discount rate, return on investment, valuation discount rate, and other assumptions adopted to forecast cash flows respectively reflect the specific risks associated with them.

As at 31 December 2021 and 31 December 2020, there was no objective evidence noted for any goodwill impairment, and no impairment loss was recognized.

(iii) The Bank increased the share capital of ABC Financial Asset Investment Co., Ltd. by RMB10 billion as at 25 January 2021, and the proportion of equity interest and voting rights the Bank held in this subsidiary remained at 100%.

(2) *Structured entities*

The Group also consolidated structured entities as disclosed in Note IV 41 Structured Entities.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

(1) *Investment in associates*

Name of entity	Notes	Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
Sino-Congolese Bank of Africa	(i)	2015	Brazzaville, Congo	XAF53,342,800,000	50.00	50.00	Bank
Shenzhen Yuanzhifuhai No. 6 Investment Enterprise (Limited Partnership)	(ii)	2015	Guangdong, PRC	RMB1,110,854,000	9.00	20.00	Equity investment, investment management and investment advisory service
Beijing Guofa Aero Engine Industry Investment Fund Center (Limited Partnership)	(ii)	2018	Beijing, PRC	RMB6,343,200,000	15.61	20.00	Non-securities investment activities and related advisory services
Jilin Hongqizhiwang New Energy Automobile Fund Investment Management Center (Limited Partnership)	(ii)	2019	Jilin, PRC	RMB3,885,500,000	25.26	20.00	Non-securities investment activities and related advisory services
Xinyuan (Beijing) Debt-to-Equity Special Equity Investment Center (Limited Partnership)	(ii)	2020	Beijing, PRC	RMB6,000,000,000	15.67	14.29	Equity investment
National Green Development Fund Co., Ltd.	(iii)	2020	Shanghai, PRC	RMB88,500,000,000	9.04	9.04	Equity investment, project investment and investment management

(i) On 28 May 2015, the Sino-Congolese Bank of Africa (La Banque Sino-Congolaise pour l'Afrique, hereinafter referred to as BSCA. Bank), established by the Bank and other investors with authorized capital denominated in Central African CFA franc ("XAF"), was granted the required banking license by the local regulatory authority. The Bank holds 50% equity interest and voting rights in BSCA. Bank, and has the right to participate in the financial and operational decisions of BSCA. Bank, but does not constitute control or joint control over those decisions.

(ii) The Bank's wholly-owned subsidiary, ABC Financial Asset Investment Co., Ltd. and other investors invested in the above mentioned enterprises. The Group has the right to participate in the financial and operational decisions of these enterprises, but does not constitute control or joint control over those decisions.

(iii) The Bank was approved to participate in the investment in National Green Development Fund Co., Ltd. in 2021. The Bank holds 9.04% equity interest and has the right to participate in the financial and operational decisions, but does not constitute control or joint control over those decisions.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (Continued)

(2) Investment in joint ventures

Name of entity	Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
Jiangsu Jiequansuihe State-owned Enterprise Mixed Ownership Reform Fund (Limited Partnership)	2018	Jiangsu, PRC	RMB1,000,000,000	69.00	28.57	Equity investment, debt-to-equity and related supporting services
Nongjin Gaotou (Hubei) Debt-to-Equity Investment Fund (Limited Partnership)	2018	Hubei, PRC	RMB500,000,000	74.00	33.33	Non-securities equity investment activities and related advisory services
Suida (Jiaxing) Investment (Limited Partnership)	2018	Zhejiang, PRC	RMB1,200,000,000	41.71	40.00	Industrial investment
Jiaxing Suihe New Silk Road Investment Fund (Limited Partnership)	2018	Zhejiang, PRC	RMB1,500,000,000	66.67	50.00	Industrial investment and equity investment
Zhejiang New Power Fund (Limited Partnership)	2018	Zhejiang, PRC	RMB2,000,000,000	50.00	50.00	Industrial investment and equity investment
Inner Mogolia Mengxingzhuli Development Fund Investment Center (Limited Partnership)	2018	Inner Mongolia, PRC	RMB2,000,000,000	50.00	50.00	Equity investment, investment management and investment advisory service
Shanghai Guohua Oil&Gas Equity Investment Fund, Ltd.	2019	Shanghai, PRC	RMB1,800,000,000	66.67	50.00	Equity investment, debt-to-equity and related supporting services
Nongyizihuan (Jiaxing) Equity Investment Partnership (Limited Partnership)	2019	Zhejiang, PRC	RMB400,000,000	70.00	50.00	Investment and investment management
Jianxinjintou Infrastructure Equity Investment (Tianjin) Fund (Limited Partnership)	2019	Tianjin, PRC	RMB3,500,000,000	20.00	20.00	Equity investment and investment management
Shaanxi Suihe equity investment fund partnership (Limited Partnership)	2019	Shaanxi, PRC	RMB1,000,000,000	50.00	50.00	Equity investment
Shanghai Diantousuihe Equity Investment Fund (Limited Partnership)	2020	Shanghai, PRC	RMB5,000,000,000	80.00	50.00	Industrial investment, equity investment and investment consultation services
Ningbo Suiheyongshang Equity Investment Partnership (Limited Partnership)	2020	Zhejiang, PRC	RMB2,000,000,000	50.00	50.00	Equity investment

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (Continued)

(2) Investment in joint ventures (Continued)

The wholly-owned subsidiary of the Bank, ABC Financial Assets Investment Co., Ltd. and other investors established the above-mentioned entities. According to the agreements, matters considered at the Meeting of Partners or investment decision-making committee shall be approved by the unanimous consent of all the partners or all the committee members. The Group constitutes joint control over the financial and operational decisions of these limited partnerships with the other investors.

21 PROPERTY AND EQUIPMENT

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost:					
1 January 2021	185,794	66,118	14,721	7,349	273,982
Additions	4,820	6,161	1,864	7,443	20,288
Transfers in/(out)	4,482	592	194	(5,268)	–
Disposals	(5,787)	(6,965)	(381)	(8)	(13,141)
31 December 2021	189,309	65,906	16,398	9,516	281,129
Accumulated depreciation:					
1 January 2021	(72,476)	(46,282)	(3,718)	–	(122,476)
Charge for the year	(6,801)	(5,951)	(771)	–	(13,523)
Disposals	1,672	6,509	379	–	8,560
31 December 2021	(77,605)	(45,724)	(4,110)	–	(127,439)
Allowance for impairment losses:					
1 January 2021	(262)	(9)	(47)	(34)	(352)
Impairment loss	(8)	–	(36)	–	(44)
Disposals	–	3	2	–	5
31 December 2021	(270)	(6)	(81)	(34)	(391)
Carrying value:					
1 January 2021	113,056	19,827	10,956	7,315	151,154
31 December 2021	111,434	20,176	12,207	9,482	153,299

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 PROPERTY AND EQUIPMENT (Continued)

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost:					
1 January 2020	193,465	67,116	13,364	4,321	278,266
Additions	4,918	7,060	1,519	5,484	18,981
Transfers in/(out)	933	1,289	223	(2,445)	–
Disposals	(13,522)	(9,347)	(385)	(11)	(23,265)
31 December 2020	185,794	66,118	14,721	7,349	273,982
Accumulated depreciation:					
1 January 2020	(73,609)	(48,465)	(3,393)	–	(125,467)
Charge for the year	(6,762)	(6,015)	(634)	–	(13,411)
Disposals	7,895	8,198	309	–	16,402
31 December 2020	(72,476)	(46,282)	(3,718)	–	(122,476)
Allowance for impairment losses:					
1 January 2020	(265)	(16)	–	(34)	(315)
Impairment loss	–	–	(49)	–	(49)
Disposals	3	7	2	–	12
31 December 2020	(262)	(9)	(47)	(34)	(352)
Carrying value:					
1 January 2020	119,591	18,635	9,971	4,287	152,484
31 December 2020	113,056	19,827	10,956	7,315	151,154

According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, the legal title of properties previously held by the Predecessor Entity are to be transferred to the Bank. As at 31 December 2021, the registration transfer process of these transferred properties and other certain properties have not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those assets or adversely affect the Bank's operation.

22 DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is the analysis of the deferred tax balances:

	As at 31 December	
	2021	2020
Deferred tax assets	**143,027**	133,355
Deferred tax liabilities	**(655)**	(334)
Net	**142,372**	133,021

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 DEFERRED TAXATION (Continued)

(1) The following are the movements and major deferred tax assets and liabilities recognized:

	Allowance for impairment losses	**Accrued but unpaid staff cost**	**Early retirement benefits**	**Provision**	**Fair value changes of financial instruments**	**Others**	**Total**
1 January 2021	**121,944**	**10,426**	**388**	**10,525**	**(10,718)**	**456**	**133,021**
Credit/(charge) to the consolidated income statement	**14,115**	**1,418**	**(116)**	**(2,073)**	**(969)**	**(274)**	**12,101**
Credit to other comprehensive income	**–**	**–**	**–**	**–**	**(2,750)**	**–**	**(2,750)**
31 December 2021	**136,059**	**11,844**	**272**	**8,452**	**(14,437)**	**182**	**142,372**

	Allowance for impairment losses	Accrued but unpaid staff cost	Early retirement benefits	Provision	Fair value changes of financial instruments	Others	Total
1 January 2020	114,140	9,175	533	7,640	(11,302)	246	120,432
Credit/(charge) to the consolidated income statement	7,804	1,251	(145)	2,885	(1,797)	210	10,208
Credit to other comprehensive income	–	–	–	–	2,381	–	2,381
31 December 2020	121,944	10,426	388	10,525	(10,718)	456	133,021

(2) Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	31 December 2021		31 December 2020	
	Deductible/ (taxable) temporary differences	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	**544,441**	**136,059**	487,775	121,944
Fair value changes of financial instruments	**28,267**	**7,087**	58,107	14,527
Accrued but unpaid staff cost	**47,379**	**11,844**	41,705	10,426
Provision	**33,809**	**8,452**	42,100	10,525
Early retirement benefits	**1,088**	**272**	1,551	388
Others	**780**	**182**	1,827	456
Subtotal	**655,764**	**163,896**	633,065	158,266
Deferred tax liabilities				
Fair value changes of financial instruments	**(86,404)**	**(21,524)**	(100,981)	(25,245)
Subtotal	**(86,404)**	**(21,524)**	(100,981)	(25,245)
Net	**569,360**	**142,372**	532,084	133,021

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 OTHER ASSETS

	Notes	As at 31 December 2021	2020
Accounts receivable and temporary payments		**75,176**	97,619
Land use rights	(1)	**20,384**	19,340
Right-of-use assets	(2)	**10,191**	10,196
Intangible assets		**6,188**	4,154
Long-term deferred expenses		**2,718**	2,233
Investment properties		**2,018**	2,529
Interest receivable		**1,836**	3,070
Foreclosed assets		**899**	716
Premiums receivable, reinsurance receivable and reserves		**659**	655
Others		**15,567**	10,780
Total		**135,636**	151,292

(1) *According to relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, land use rights previously held by the Predecessor Entity are to be transferred to the Bank. As at 31 December 2021, the registration transfer process of certain land use rights has not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those land use rights.*

(2) *As at 31 December 2021, the right-of-use assets recognized by the Group mainly include buildings, and are mainly used for daily business. The depreciation expense for the year ended 31 December 2021 was amounting to RMB3,952 million (for the year ended 31 December 2020: RMB3,993 million), and the accumulated depreciation amounting to RMB8,903 million (31 December 2020: RMB7,361 million).*

24 BORROWINGS FROM CENTRAL BANKS

	As at 31 December 2021	2020
Borrowings from central banks	**740,629**	730,146
Accrued interest	**6,584**	7,015
Total	**747,213**	737,161

25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2021	2020
Deposits from:		
Domestic banks	**167,300**	114,693
Other domestic financial institutions	**1,401,314**	1,229,313
Overseas banks	**3,332**	2,006
Other overseas financial institutions	**41,446**	42,691
Subtotal	**1,613,392**	1,388,703
Accrued interest	**8,974**	5,813
Total	**1,622,366**	1,394,516

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2021	2020
Placements from:		
Domestic banks and other financial institutions	**129,317**	222,377
Overseas banks and other financial institutions	**161,119**	167,291
Subtotal	**290,436**	389,668
Accrued interest	**669**	992
Total	**291,105**	390,660

27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

		As at 31 December	
	Note	**2021**	2020
Financial liabilities held for trading			
Precious metal contracts		**15,646**	13,725
Subtotal		**15,646**	13,725
Financial liabilities designated at fair value through profit or loss			
Placements from banks and other financial institutions by principal guaranteed wealth management	(1)	**–**	9,540
Liabilities of the controlled structured entities		**214**	4,452
Others		**–**	100
Subtotal		**214**	14,092
Total		**15,860**	27,817

(1) *The Group designates placements from banks and other financial institutions by principal guaranteed wealth management as financial liabilities at fair value through profit or loss.*

For the current and prior year, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss attributable to the changes in the Group's own credit risk.

28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 31 December	
	2021	2020
Analyzed by type of collateral:		
Debt securities	**31,298**	107,844
Bills	**4,720**	1,325
Subtotal	**36,018**	109,169
Accrued interest	**15**	26
Total	**36,033**	109,195

The collateral pledged under repurchase agreement is disclosed in Note IV 42 Contingent Liabilities and Commitments — Collateral.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 DUE TO CUSTOMERS

	Note	As at 31 December	
		2021	2020
Demand deposits			
Corporate customers		**5,383,210**	5,236,566
Individual customers		**5,942,411**	5,872,736
Time deposits			
Corporate customers		**2,761,506**	2,477,710
Individual customers		**7,000,805**	6,062,167
Pledged deposits	(1)	**339,588**	299,962
Others		**167,933**	158,231
Subtotal		**21,595,453**	20,107,372
Accrued interest		**311,674**	265,529
Total		**21,907,127**	20,372,901

(1) Analyzed by activity to which pledged deposits are related to:

	As at 31 December	
	2021	2020
Trade finance	**127,012**	100,822
Guarantee and letters of guarantee	**75,099**	73,606
Bank acceptance	**66,418**	48,718
Letters of credit	**32,948**	39,309
Others	**38,111**	37,507
Total	**339,588**	299,962

(2) As at 31 December 2021, the principal-guaranteed WMPs has fully settled at maturity, the difference between the fair value of the structured deposits designated at fair value through profit or loss issued by the Group and the contractual amount payable to the holders of these products upon maturity was not material. As at 31 December 2020, the difference between the fair value of the principal-guaranteed WMPs and the structured deposits designated at fair value through profit or loss issued by the Group and the contractual amount payable to the holders of these products upon maturity was not material. As at 31 December 2021, due to customers measured at amortized cost of the Group amounted to RMB21,854,821 million (31 December 2020: RMB20,031,232 million), due to customers measured at fair value through profit or loss of the Group amounted to RMB52,306 million (31 December 2020: RMB341,669 million).

30 DEBT SECURITIES ISSUED

	Notes	As at 31 December	
		2021	2020
Bonds issued	(1)	**420,813**	430,703
Certificates of deposit issued	(2)	**262,272**	252,569
Other debt securities issued	(3)	**816,321**	679,261
Subtotal		**1,499,406**	1,362,533
Accrued Interest		**8,251**	9,312
Total		**1,507,657**	1,371,845

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 DEBT SECURITIES ISSUED (Continued)

As at 31 December 2021 and 31 December 2020, there was no default on the principal, interest or redemption related to any debt securities issued by the Group.

(1) Bonds issued

	Notes	As at 31 December 2021	2020
1.25% USD fixed rate Green Bonds maturing in January 2026	(i)	**1,913**	–
5.30% subordinated fixed rate bonds maturing in June 2026	(ii)	**–**	50,000
4.99% subordinated fixed rate bonds maturing in December 2027	(iii)	**50,000**	50,000
4.45% Tier-two capital fixed rate bonds maturing in October 2027	(iv)	**40,000**	40,000
4.45% Tier-two capital fixed rate bonds maturing in April 2028	(v)	**40,000**	40,000
4.28% Tier-two capital fixed rate bonds maturing in March 2029	(vi)	**50,000**	50,000
4.30%Tier-two capital fixed rate bonds maturing in April 2029	(vii)	**40,000**	40,000
3.10% Tier-two capital fixed rate bonds maturing in April 2030	(viii)	**40,000**	40,000
4.53% Tier-two capital fixed rate bonds maturing in March 2034	(ix)	**10,000**	10,000
4.63% Tier-two capital fixed rate bonds maturing in April 2034	(x)	**20,000**	20,000
Medium term notes issued	(xi)	**56,305**	42,643
1.99% fixed rate financial bonds maturing in April 2023	(xii)	**20,000**	20,000
3.38% fixed rate financial bonds maturing in April 2024	(xiii)	**20,000**	–
3.68% CNY fixed rate Green Bonds maturing in June 2022	(xiv)	**2,770**	2,720
3.90% fixed rate financial bonds maturing in November 2023	(xv)	**2,000**	1,650
3.06% fixed rate financial bonds maturing in August 2024	(xvi)	**2,500**	–
3.30% fixed rate financial bonds maturing in September 2022	(xvii)	**3,870**	3,870
2.68% fixed rate financial bonds maturing in March 2023	(xviii)	**4,000**	4,000
4.70% fixed rate capital replenishment bonds maturing in August 2021	(xix)	**–**	2,410
3.40% fixed rate financial bonds maturing in September 2024	(xx)	**2,000**	2,000
2.75% fixed rate financial bonds maturing in March 2025	(xxi)	**6,000**	6,000
3.80% fixed rate financial bonds maturing in June 2025	(xxii)	**500**	500
4.10% fixed rate financial bonds maturing in April 2026	(xxiii)	**1,100**	–
3.80% fixed rate financial bonds maturing in June 2026	(xxiv)	**3,000**	–
5.55% fixed rate capital replenishment bonds maturing in March 2028	(xxv)	**3,500**	3,500
3.60% fixed rate capital replenishment bonds maturing in March 2030	(xxvi)	**1,500**	1,500
Total nominal value		**420,958**	430,793
Less: Unamortized issuance cost and discounts		**(145)**	(90)
Total		**420,813**	430,703

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 DEBT SECURITIES ISSUED (Continued)

(1) Bonds issued (Continued)

Pursuant to the approval by relevant regulatory authorities, the bonds issued by the Group are set out as below:

(i) The USD green bonds issued in January 2021 have a tenor of 5 years, with a fixed coupon rate 1.25%, payable semi-annually.

(ii) The subordinated fixed rate bonds issued in June 2011 have a tenor of 15 years, with a fixed coupon rate of 5.30%, payable annually. The Bank has redeemed all of the bonds at face value on 6 June 2021.

(iii) The subordinated fixed rate bonds issued in December 2012 have a tenor of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank has an option to redeem all of the bonds at face value on 19 December 2022. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.99% per annum from 20 December 2022 onwards.

(iv) The Tier-two capital bonds issued in October 2017 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 16 October 2022 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 17 October 2022 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(v) The Tier-two capital bonds issued in April 2018 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 26 April 2023 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 27 April 2023 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(vi) The Tier-two capital bonds issued in March 2019 have a tenor of 10 years, with a fixed coupon rate of 4.28% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 18 March 2024 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.28% per annum from 19 March 2024 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(vii) The Tier-two capital bonds issued in April 2019 have a tenor of 10 years, with a fixed coupon rate of 4.30% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 10 April 2024 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.30% per annum from 11 April 2024 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(viii) The Tier-two capital bonds issued in April 2020 have a tenor of 10 years, with a fixed coupon rate of 3.10% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 5 May 2025 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 3.10% per annum from 6 May 2025 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 DEBT SECURITIES ISSUED (Continued)

(1) Bonds issued (Continued)

(ix) The Tier-two capital bonds issued in March 2019 have a tenor of 15 years, with a fixed coupon rate of 4.53% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 18 March 2029 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.53% per annum from 19 March 2029 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(x) The Tier-two capital bonds issued in April 2019 have a tenor of 15 years, with a fixed coupon rate of 4.63% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 10 April 2029 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.63% per annum from 11 April 2029 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(xi) The medium term notes ("MTNs") were issued by the Overseas Operations of the Group and are measured at amortized cost. The details of medium term notes issued were as follows:

	As at 31 December 2021		
	Maturity dates ranging from	Coupon rates (%)	Outstanding balance
Fixed rate RMB MTNs	May 2023 to April 2024	2.60–2.70	1,502
Fixed rate HKD MTNs	October 2022 to June 2023	0.50–1.00	8,583
Fixed rate USD MTNs	July 2023 to September 2026	0.70–1.65	34,745
Floating rate USD MTNs	July 2022 to November 2023	3 months Libor+66 to 85bps	11,475
Total			**56,305**

	As at 31 December 2020		
	Maturity dates ranging from	Coupon rates (%)	Outstanding balance
Fixed rate HKD MTNs	October 2022	1.00	4,208
Fixed rate USD MTNs	June 2021 to October 2025	1.00–3.88	18,871
Floating rate USD MTNs	September 2021 to November 2023	3 months Libor+68 to 85bps	19,564
Total			42,643

(xii) The fixed rate financial bonds issued by ABC in April 2020 have a tenor of 3 years, with a fixed coupon rate of 1.99%, payable annually.

(xiii) The fixed rate financial bonds issued by ABC in April 2021 have a tenor of 3 years, with a fixed coupon rate of 3.38%, payable annually.

(xiv) The CNY green bonds issued by ABC Financial Leasing Co., Ltd. in June 2019 have a tenor of 3 years, with a fixed coupon rate 3.68%, payable annually.

(xv) The fixed rate financial bonds issued by ABC Financial Leasing Co., Ltd. in November 2020 have a tenor of 3 years, with a fixed coupon rate of 3.90%, payable annually.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 DEBT SECURITIES ISSUED (Continued)

(1) Bonds issued (Continued)

(xvi) The fixed rate financial bonds issued by ABC Financial Leasing Co., Ltd. in August 2021 have a tenor of 3 years, with a fixed coupon rate of 3.06%, payable annually.

(xvii) The fixed rate financial bonds issued by ABC Financial Assets Investment Co., Ltd. in September 2019 have a tenor of 3 years, with a fixed coupon rate of 3.30%, payable annually.

(xviii) The fixed rate financial bonds issued by ABC Financial Assets Investment Co., Ltd. in March 2020 have a tenor of 3 years, with a fixed coupon rate of 2.68%, payable annually.

(xix) The fixed rate financial bonds issued by ABC International Holdings Limited in August 2018 have a tenor of 3 years, with a fixed coupon rate of 4.70%, payable annually. The bonds have expired on 21 August 2021.

(xx) The fixed rate financial bonds issued by ABC Financial Assets Investment Co., Ltd. in September 2019 have a tenor of 5 years, with a fixed coupon rate of 3.40%, payable annually.

(xxi) The fixed rate financial bonds issued by ABC Financial Assets Investment Co., Ltd. in March 2020 have a tenor of 5 years, with a fixed coupon rate of 2.75%, payable annually.

(xxii) The fixed rate financial bonds issued by ABCI Investment Suzhou Corporation Limited in June 2020 have a tenor of 5 years, with a fixed coupon rate of 3.80%, payable annually.

(xxiii) The fixed rate financial bonds issued by ABCI Investment Suzhou Corporation Limited in April 2021 have a tenor of 5 years, with a fixed coupon rate of 4.10%, payable annually.

(xxiv) The fixed rate financial bonds issued by ABCI Investment Beijing Corporation Limited in June 2021 have a tenor of 5 years, with a fixed coupon rate of 3.80%, payable annually.

(xxv) The fixed rate capital replenishment debt issued by ABC Life Insurance in March 2018 have a tenor of 10 years, with a fixed coupon rate of 5.55%, payable annually. ABC Life Insurance has an option to redeem all of the bonds at face value on 4 March 2023. If ABC Life Insurance do not exercise this option, the coupon rate of the bonds would increase to 6.55% per annum from 5 March 2023 onwards.

(xxvi) The fixed rate capital replenishment debt issued by ABC Life Insurance in March 2020 have a tenor of 10 years, with a fixed coupon rate of 3.60%, payable annually. ABC Life Insurance has an option to redeem all of the bonds at face value on 25 March 2025. If ABC Life Insurance do not exercise this option, the coupon rate of the bonds would increase to 4.60% per annum from 26 March 2025 onwards.

(2) As at 31 December 2021, the certificates of deposit were issued by the overseas institutions of the Group and were measured at amortized cost. The terms of the certificates of deposit ranged from one month to five years, with interest rates ranging from -0.02% to 3.09% per annum. (As at 31 December 2020, the terms of the certificates of deposit ranged from one month to seven years, with interest rates ranging from -0.02% to 3.66% per annum.)

(3) Other debt securities issued by the Group and Bank are commercial papers and interbank certificates of deposit.

(i) As at 31 December 2021, the commercial papers were issued by the overseas institutions of the Group and were measured at amortized cost. The terms of the commercial papers ranged from two months to one year, with interest rates ranging from 0.00% to 0.45% per annum (As at 31 December 2020, the terms of the commercial papers ranged from three months to one year, with interest rates ranging from 0.00% to 2.14% per annum.)

(ii) As at 31 December 2021, the interbank certificates of deposit were issued by the Bank's Head Office and London Branch. The terms of the interbank certificates of deposit ranged from one month to one year, with interest rates ranging from -0.51% to 0.59% per annum (As at 31 December 2020, the terms of the interbank certificate of deposit ranged from one month to one year, with interest rates ranging from 1.58% to 3.35% per annum.)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 OTHER LIABILITIES

	Notes	As at 31 December 2021	2020
Clearing and settlement		**153,389**	168,852
Insurance liabilities		**105,262**	89,651
Income taxes payable		**61,639**	54,340
Staff costs payable	(1)	**59,736**	56,811
Provision	(2)	**33,809**	42,100
VAT and other taxes payable		**10,571**	10,235
Lease liabilities		**10,067**	9,824
Amount payable to the MOF		**1,286**	711
Others		**64,684**	92,066
Total		**500,443**	524,590

(1) *Staff costs payable*

	Notes	As at 31 December 2021	2020
Short-term employee benefits	(i)	**57,262**	47,380
Defined contribution benefits	(ii)	**1,386**	7,880
Early retirement benefits	(iii)	**1,088**	1,551
Total		**59,736**	56,811

(i) *Short-term employee benefits*

		2021			
	Note	1 January	Increase	Decrease	31 December
Salaries, bonuses, allowance and subsidies	(a)	**35,010**	**90,052**	**(82,277)**	**42,785**
Housing funds	(a)	**108**	**9,406**	**(9,377)**	**137**
Social insurance including:	(a)	**385**	**5,895**	**(5,834)**	**446**
— Medical insurance		**367**	**5,514**	**(5,463)**	**418**
— Maternity insurance		**9**	**223**	**(218)**	**14**
— Employment injury insurance		**9**	**158**	**(153)**	**14**
Labor union fees and staff education expenses		**8,039**	**4,001**	**(2,895)**	**9,145**
Others		**3,838**	**10,982**	**(10,071)**	**4,749**
Total		**47,380**	**120,336**	**(110,454)**	**57,262**

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 OTHER LIABILITIES (Continued)

(1) *Staff costs payable* (Continued)

(i) *Short-term employee benefits* (Continued)

		2020			
	Note	1 January	Increase	Decrease	31 December
Salaries, bonuses, allowance and subsidies	(a)	31,289	81,087	(77,366)	35,010
Housing funds	(a)	184	8,933	(9,009)	108
Social insurance including:	(a)	332	4,713	(4,660)	385
— Medical insurance		311	4,398	(4,342)	367
— Maternity insurance		13	205	(209)	9
— Employment injury insurance		8	110	(109)	9
Labor union fees and staff education expenses		7,049	3,613	(2,623)	8,039
Others		4,276	10,612	(11,050)	3,838
Total		43,130	108,958	(104,708)	47,380

(a) *Salaries, bonuses, allowance and subsidies, housing funds and social insurance are timely distributed and paid in accordance with relevant laws and regulations and the Group's policy.*

(ii) *Defined contribution benefits*

	2021			
	1 January	**Increase**	**Decrease**	**31 December**
Basic pensions	**619**	**10,924**	**(10,849)**	**694**
Unemployment insurance	**40**	**360**	**(360)**	**40**
Annuity Scheme	**7,221**	**6,993**	**(13,562)**	**652**
Total	**7,880**	**18,277**	**(24,771)**	**1,386**

	2020			
	1 January	Increase	Decrease	31 December
Basic pensions	452	8,110	(7,943)	619
Unemployment insurance	34	249	(243)	40
Annuity Scheme	4,722	6,367	(3,868)	7,221
Total	5,208	14,726	(12,054)	7,880

The defined contribution benefits are timely distributed and paid in accordance with relevant laws and regulations and the Group's policy. There was no forfeited contribution available to reduce the contribution payable by the Group under the above schemes.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 OTHER LIABILITIES (Continued)

(1) *Staff costs payable* (Continued)

(iii) *Early retirement benefits*

	2021			
	1 January	Increase	Decrease	31 December
Early retirement benefits	1,551	15	(478)	1,088

	2020			
	1 January	Increase	Decrease	31 December
Early retirement benefits	2,133	5	(587)	1,551

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	As at 31 December	
	2021	2020
Discount rate	2.58%	2.90%
Annual average medical expense growth rate	8.00%	8.00%
Annual subsidies growth rate	8.00%	8.00%
Normal retirement age		
— Male	60	60
— Female	55	55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

Any difference arising from the actual result or changes in assumptions may affect the amount of expense recognized in the consolidated income statement.

(2) *Provision*

		As at 31 December	
	Note	2021	2020
Loan commitments and financial guarantee contracts	(i)	20,271	35,756
Litigation provision		5,333	5,560
Others		8,205	784
Total		33,809	42,100

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 OTHER LIABILITIES (Continued)

(2) Provision (Continued)

(i) Analyzed by movements in loss allowance for loan commitments and financial guarantee contracts

		Year ended 31 December 2021			
		Stage I	**Stage II**	**Stage III**	
	Note	**12m ECL**	**Lifetime ECL**		**Total**
1 January 2021		**33,356**	**1,661**	**739**	**35,756**
Transfer:					
Stage I transfer to Stage II		**(155)**	**155**	**–**	**–**
Stage II transfer to Stage III		**–**	**(219)**	**219**	**–**
Stage II transfer to Stage I		**51**	**(51)**	**–**	**–**
Stage III transfer to Stage II		**–**	**31**	**(31)**	**–**
Increase	(a)	**9,797**	**–**	**–**	**9,797**
Remeasurement		**(79)**	**616**	**539**	**1,076**
Decrease	(a)	**(24,637)**	**(1,542)**	**(179)**	**(26,358)**
31 December 2021		**18,333**	**651**	**1,287**	**20,271**

		Year ended 31 December 2020			
		Stage I	Stage II	Stage III	
	Note	12m ECL	Lifetime ECL		Total
1 January 2020		22,836	2,032	345	25,213
Transfer:					
Stage I transfer to Stage II		(682)	682	–	–
Stage II transfer to Stage III		–	(348)	348	–
Stage II transfer to Stage I		3	(3)	–	–
Increase	(a)	18,613	–	–	18,613
Remeasurement		720	6	401	1,127
Decrease	(a)	(8,134)	(708)	(355)	(9,197)
31 December 2020		33,356	1,661	739	35,756

(a) The impact of loss allowance driven by new loan commitments and financial guarantee contracts signed in 2021 and 2020 is disclosed as "Increase". The impact of loss allowance driven by withdrawals, advances or expiration of loan commitments and financial guarantee contracts in 2021 and 2020 are disclosed as "Decrease". The changes of loss allowance for loan commitments and financial guarantee contracts in 2021 and 2020 are mainly driven by the net decrease and net increase in the exposure of loan commitments and financial guarantee contracts.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 ORDINARY SHARES

	31 December 2021	
	Number of shares (millions)	**Nominal value**
Domestic listed A shares, par value RMB1.00 per share	**319,244**	**319,244**
Overseas listed H shares, par value RMB1.00 per share	**30,739**	**30,739**
Total	**349,983**	**349,983**

	31 December 2020	
	Number of shares (millions)	Nominal value
Domestic listed A shares, par value RMB1.00 per share	319,244	319,244
Overseas listed H shares, par value RMB1.00 per share	30,739	30,739
Total	349,983	349,983

(1) *A shares refer to the ordinary shares listed in the Chinese mainland. They are offered and traded in RMB. H shares refer to the ordinary shares listed in Hong Kong SAR. Their par value is denominated in RMB when they were initially offered and are currently traded in HKD.*

(2) *As at 31 December 2021, the Bank's A Shares and H Shares were not subject to lock-up restriction, except for the 19,960 million ordinary shares issued through the private placement in June 2018. As at 31 December 2020, the Bank's A Shares and H Shares were not subject to lock-up restriction, except for the 25,189 million ordinary shares issued through the private placement in June 2018.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 OTHER EQUITY INSTRUMENTS

Financial instruments in issued		Dividend rate	Issued price (RMB yuan)	Issued number of shares (millions)	Issued nominal value (millions)	Maturity date	Conversion
Preference shares — first tranche[(1)]		6.00% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the year
Preference shares — second tranche[(1)]		5.50% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the year
Perpetual bonds	Undated tier 1 capital bonds in 2019 — first tranche[(2)]	4.39% per annum for the first 5 years after issuance, and reset every 5 years as stated below	100	850	85,000	No maturity date	N/A
	Undated tier 1 capital bonds in 2019 — second tranche[(2)]	4.20% per annum for the first 5 years after issuance, and reset every 5 years as stated below	100	350	35,000	No maturity date	N/A
	Undated tier 1 capital bonds in 2020 — first tranche[(2)]	3.48% per annum for the first 5 years after issuance, and reset every 5 years as stated below	100	850	85,000	No maturity date	N/A
	Undated tier 1 capital bonds in 2020 — second tranche[(2)]	4.50% per annum for the first 5 years after issuance, and reset every 5 years as stated below	100	350	35,000	No maturity date	N/A
	Undated tier 1 capital bonds in 2021 — first tranche[(2)]	3.76% per annum for the first 5 years after issuance, and reset every 5 years as stated below	100	400	40,000	No maturity date	N/A

(1) The Bank was authorized to issue no more than 800 million preference shares of RMB100 each, pursuant to the approval by its ordinary equity holders and relevant regulatory authorities.

The first tranche of 400 million preference shares was issued at par in November 2014. The carrying amount, net of direct issuance expenses, was RMB39,944 million as at 31 December 2021. The first tranche of preference shares bears a dividend rate of 6.00% per annum; dividends are non-cumulative and where payable, are paid annually, for the first five years from issuance. The dividend rate will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 2.29%. The first five-year dividend period expired on 1 November 2019. During the second dividend period beginning from 5 November 2019, the base rate and fixed premium is 3.03% and 2.29%, respectively, and the coupon rate is 5.32%. The dividend is paid annually.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 OTHER EQUITY INSTRUMENTS (Continued)

(1) *The Bank was authorized to issue no more than 800 million preference shares of RMB100 each, pursuant to the approval by its ordinary equity holders and relevant regulatory authorities. (Continued)*

The second tranche of 400 million preference shares was issued at par in March 2015. The carrying amount, net of direct issuance expenses, was RMB39,955 million as at 31 December 2021. The second tranche of preference shares bears a dividend rate of 5.50% per annum; dividends are non-cumulative and where payable, are paid annually, for the first five years from issuance. The dividend rate will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 2.24%. The first five-year dividend period expired on 6 March 2020. During the second dividend period beginning from 11 March 2020, the base rate and fixed premium is 2.60% and 2.24%, respectively, and the coupon rate is 4.84%. The dividend is paid annually.

There were no changes in the carrying amounts of the preference shares since issuance.

As authorized by the ordinary equity holders in the annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. The Bank shall not distribute any dividends to its ordinary equity holders before it declares such dividends to preference shareholders for the relevant period. The distribution of preference shares dividend is at the Bank's discretion and is non-cumulative. Preference shareholders are not entitled to participate in the distribution of retained earnings except for the dividends stated above.

The Bank has a redemption option when specified conditions as stipulated in the offering documents are met, subject to regulatory approval, whereas preference shareholders have no right to request the Bank to redeem the preference shares.

Upon liquidation, the claims of preference shareholders have priority over ordinary equity holders on the residual assets of the Bank, but are subordinated to those of depositors, general creditors, Tier-two Capital Instruments holders or any other subordinated debt holders with equivalent rights.

Upon occurrence of the triggering events as stipulated in paragraph 2(1) of the Guidance of the CBIRC on Amendments to Commercial Banks' Innovation on Capital Instruments (CBIRC No. 42 [2019]) and subject to regulatory approval, the first tranche of preference shares and the second tranche of preference shares shall be mandatorily converted into ordinary A shares of the Bank at the conversion price agreed, partially or entirely. The initial conversion price of the preference shares issued by the Bank was RMB2.43 per share. In June 2018, the Bank has issued 25.19 billion ordinary A shares to specific investors. The conversion price of the preference shares will be adjusted where certain events occur including bonus issues, rights issue, capitalization of reserves and new issuances of ordinary shares, subject to terms and formulas provided in the offering documents, to maintain the relative interests between preference shareholders and ordinary equity holders. Upon completion of the private placement of ordinary shares by the Bank, the mandatory conversion price of the first tranche of preference shares and the second tranche of preference shares issued by the Bank will be adjusted from RMB2.43 per share to RMB2.46 per share.

These preference shares are classified as equity instruments, and presented as equity in the consolidated statement of financial position, and are qualified as Additional Tier-one Capital Instruments in accordance with the CBIRC requirements.

The carrying amount, net of direct issuance expenses, was RMB79,899 million as at 31 December 2021 (31 December 2020: RMB79,899 million).

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 OTHER EQUITY INSTRUMENTS (Continued)

(2) With the authorization of the annual general meeting and the approval from regulatory authorities, the Bank was permitted to issue undated additional tier 1 capital bonds ("Perpetual bonds" or the "Bonds") of an amount no more than RMB120 billion in 2019.

The Bank issued undated additional tier 1 capital bonds (first tranche) with the amount of RMB85 billion in the national interbank bond market on 16 August 2019, and the issuance was completed on 20 August 2019. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 4.39%.

The Bank issued undated additional tier 1 capital bonds (second tranche) with the amount of RMB35 billion in the national interbank bond market on 3 September 2019, and the issuance was completed on 5 September 2019. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 4.20%.

With the authorization of the annual general meeting and the approval from regulatory authorities, the Bank was granted to issue undated additional tier 1 capital bonds ("Perpetual bonds" or the "Bonds") of an amount no more than RMB120 billion in 2020.

The Bank issued undated additional tier 1 capital bonds (first tranche) with the amount of RMB85 billion in the national interbank bond market on 8 May 2020, and the issuance was completed on 12 May 2020. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 3.48%.

The Bank issued undated additional tier 1 capital bonds (second tranche) with the amount of RMB35 billion in the national interbank bond market on 20 August 2020, and the issuance was completed on 24 August 2020. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 4.50%.

With the authorization of the annual general meeting and the approval from regulatory authorities, the Bank was granted to issue undated additional tier 1 capital bonds ("Perpetual bonds" or the "Bonds") of an amount no more than RMB120 billion in 2021.

The Bank issued undated additional tier 1 capital bonds (first tranche) with the amount of RMB40 billion in the national interbank bond market on 12 November 2021, and the issuance was completed on 16 November 2021. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 3.76%.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 OTHER EQUITY INSTRUMENTS (Continued)

(2) With the authorization of the annual general meeting and the approval from regulatory authorities, the Bank was permitted to issue undated additional tier 1 capital bonds ("Perpetual bonds" or the "Bonds") of an amount no more than RMB120 billion in 2019. (Continued)

The duration of the Perpetual bonds is the same as the continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the Bonds in whole or in part on each distribution payment date from the fifth anniversary since the issuance date of the Bonds. Upon the occurrence of a trigger event for write-downs, with the approval of the CBIRC and without the need for the consent of the holders of the Bonds, the Bank has the right to write down all or part of the aggregate amount of the Bonds then issued and outstanding. The claims of the holders of the Bonds will be subordinated to the claims of depositors, general creditors and subordinated indebtedness that ranks senior to the Bonds; and shall rank in priority to all classes of shares held by shareholders and will rank pari passu with the claims in respect of any other additional tier 1 capital instruments of the Bank that rank pari passu with the Bonds.

The distributions on the Perpetual bonds are non-cumulative. The Bank shall have the right to cancel distributions on the Bonds in whole or in part and any such cancellation shall not constitute an event of default. The Bank may at its discretion use the proceeds from the cancelled distribution to meet other obligations as they fall due. But the Bank shall not make any distribution to ordinary shareholders until its decision to resume the distribution payments in whole to the holders of the Bonds.

The net proceeds from the issuance of the Perpetual bonds after deducting offering related expenses were used to replenish the Bank's additional tier 1 capital.

The carrying amount, net of direct issuance expenses, was RMB279,973 million as at 31 December 2021 (31 December 2020: RMB239,976 million).

34 CAPITAL RESERVE

The capital reserve mainly represents the premium related to ordinary shares issued by the Bank in 2010 and private placement of ordinary shares to the specific shareholders in 2018. Share premium was recorded in the capital reserve after deducting direct issue expenses, which consisted primarily of underwriting fees and professional fees.

35 INVESTMENT REVALUATION RESERVE

	2021		
	Gross carrying amount	**Tax effect**	**Net effect**
31 December 2020	**34,773**	**(8,786)**	**25,987**
Fair value changes on other debt instruments investments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	**13,049**	**(2,528)**	**10,521**
— Amount removed from other comprehensive income and recognized in profit or loss	**(1,131)**	**(283)**	**(1,414)**
Fair value changes on other equity investments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	**(282)**	**115**	**(167)**
31 December 2021	**46,409**	**(11,482)**	**34,927**

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 INVESTMENT REVALUATION RESERVE (Continued)

	2020		
	Gross carrying amount	Tax effect	Net effect
31 December 2019	39,875	(10,191)	29,684
Fair value changes on other debt instruments investments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	(4,238)	1,188	(3,050)
— Amount removed from other comprehensive income and recognized in profit or loss	(750)	188	(562)
Fair value change on other equity investments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	(114)	29	(85)
31 December 2020	34,773	(8,786)	25,987

36 SURPLUS RESERVE

Under PRC Law, the Bank is required to transfer 10% of its net profit determined under the PRC GAAP to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. Pursuant to the resolution of the Board of Directors' Meeting held on 30 March 2022, an appropriation of 10% of the profit for the current year, determined under the generally accepted accounting principles of the PRC, to the statutory surplus reserve, in the amount of RMB24,335 million (2020: RMB21,040 million) was approved. In addition, certain subsidiaries and overseas branches also appropriated surplus reserves in accordance with local requirements.

Subject to the approval of the ordinary equity holders, the statutory surplus reserves can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserves amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserves after such capitalization is not less than 25% of the ordinary share capital.

37 GENERAL RESERVE

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirement") issued by the MOF, effective on 1 July 2012, in addition to impairment allowance, the Bank establishes a general reserve within ordinary equity holders' equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement. The general reserve includes regulatory reserve appropriated by the Bank's overseas branches pursuant to local regulatory requirements.

Pursuant to relevant PRC regulatory requirements, some domestic subsidiaries of the Bank are required to appropriate certain amounts of their net profit as general reserves.

During the year ended 31 December 2021, the Group transferred RMB40,167 million (2020: RMB34,433 million) to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB39,217 million (2020: RMB34,211 million) related to the appropriation proposed for the year ended 31 December 2020 which was approved in the annual general meeting held on 27 May 2021.

On 30 March 2022, the Board of Directors' meeting approved a proposal of appropriation of RMB32,221 million to general reserve. Such appropriation will be recognized in the Group's consolidated financial statements after approval by ordinary equity holders in the forthcoming annual general meeting.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following balances with an original maturity of three months or less:

	As at 31 December	
	2021	2020
Cash	**74,610**	76,281
Balance with central banks	**101,010**	51,802
Deposits with banks and other financial institutions	**12,163**	76,904
Placements with and loans to banks and other financial institutions	**103,110**	207,568
Financial assets held under resale agreements	**833,869**	762,598
Total	**1,124,762**	1,175,153

39 OPERATING SEGMENTS

Operating segments are identified on the basis of internal management reports with respect to the components of the Group that are regularly reviewed by the Board and relevant management committees, which constitute the chief operating decision makers, for the purposes of allocating resources to segments and assessing their performance. The Group's chief operating decision makers review three different sets of financial information based on (i) geographical locations, (ii) business activities and (iii) County Area and Urban Area banking business.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results are based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the consolidated financial statements and those used in preparing the operating segment information.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Geographical operating segments

The details of the geographical operating segments are as follows:

Head Office	
Yangtze River Delta:	Shanghai, Jiangsu, Zhejiang, Ningbo
Pearl River Delta:	Guangdong, Shenzhen, Fujian, Xiamen
Bohai Rim:	Beijing, Tianjin, Hebei, Shandong, Qingdao
Central China:	Shanxi, Hubei, Henan, Hunan, Jiangxi, Hainan, Anhui
Western China:	Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang (including Xinjiang Production and Construction Corps Branch), Tibet, Inner Mongolia, Guangxi
Northeastern China:	Liaoning, Heilongjiang, Jilin, Dalian
Overseas and Others:	Subsidiaries and overseas branches

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

Geographical operating segments (Continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
For the year ended 31 December 2021										
External interest income	312,905	165,902	116,342	97,411	112,282	159,636	23,728	19,808	–	1,008,014
External interest expense	(62,136)	(93,360)	(48,988)	(71,233)	(59,171)	(66,727)	(20,385)	(8,027)	–	(430,027)
Inter-segment net interest (expense)/income	(271,993)	63,604	31,990	65,095	48,445	44,643	19,617	(1,401)	–	–
Net interest income	(21,224)	136,146	99,344	91,273	101,556	137,552	22,960	10,380	–	577,987
Fee and commission income	39,414	14,432	10,999	8,913	8,641	11,416	2,071	2,835	–	98,721
Fee and commission expense	(3,529)	(3,568)	(2,707)	(2,149)	(2,791)	(2,921)	(634)	(93)	–	(18,392)
Net fee and commission income	35,885	10,864	8,292	6,764	5,850	8,495	1,437	2,742	–	80,329
Net trading gain	7,621	613	54	86	33	46	24	5,764	–	14,241
Net gain/(loss) on financial investments	12,174	(4,065)	(925)	(380)	(726)	6,416	(115)	2,656	–	15,035
Net gain on derecognition of financial assets measured at amortized cost	9	–	–	–	–	–	–	2	–	11
Other operating income	1,053	970	629	448	483	1,693	107	28,760	–	34,143
Operating income	35,518	144,528	107,394	98,191	107,196	154,202	24,413	50,304	–	721,746
Operating expenses	(18,196)	(38,779)	(27,919)	(32,533)	(38,428)	(53,152)	(14,431)	(36,837)	–	(260,275)
Credit impairment losses	(10,057)	(33,444)	(21,895)	(32,026)	(30,379)	(33,349)	(4,104)	(632)	–	(165,886)
Impairment losses on other assets	(20)	–	–	(1)	(9)	(45)	(22)	(17)	–	(114)
Operating profit	7,245	72,305	57,580	33,631	38,380	67,656	5,856	12,818	–	295,471
Share of results of associates and joint ventures	58	–	–	–	–	–	–	351	–	409
Profit before tax	7,303	72,305	57,580	33,631	38,380	67,656	5,856	13,169	–	295,880
Income tax expense										(53,944)
Profit for the year										241,936
Depreciation and amortization included in operating expenses	1,872	3,186	2,546	3,106	3,124	4,255	1,193	515	–	19,797
Capital expenditure	3,684	2,565	3,642	4,141	4,014	5,771	969	2,158	–	26,944
As at 31 December 2021										
Segment assets	5,349,436	6,245,511	3,777,921	5,144,974	4,261,718	5,616,038	1,292,922	1,158,228	(3,920,620)	28,926,128
Including: Investment in associates and joint ventures	1,072	–	–	–	–	–	–	7,225	–	8,297
Unallocated assets										143,027
Total assets										29,069,155
Including: Non-current assets (1)	15,399	30,401	20,108	30,150	28,146	42,446	10,731	27,094	–	204,475
Segment liabilities	(2,878,758)	(6,304,624)	(3,787,707)	(5,185,277)	(4,293,433)	(5,647,159)	(1,303,874)	(1,105,290)	3,920,620	(26,585,502)
Unallocated liabilities										(62,294)
Total liabilities										(26,647,796)
Loan commitments and financial guarantee contracts	12,035	537,337	366,666	389,817	308,368	320,502	75,593	77,987	–	2,088,305

(1) *Non-current assets include property and equipment, investment properties, right-of-use assets, land use rights, intangible assets and other long-term assets.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

Geographical operating segments (Continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
For the year ended 31 December 2020										
External interest income	295,937	146,586	104,665	90,675	100,397	146,982	22,471	23,219	–	930,932
External interest expense	(62,901)	(81,914)	(40,592)	(61,183)	(50,040)	(57,814)	(17,574)	(13,835)	–	(385,853)
Inter-segment net interest (expense)/income	(236,844)	56,373	26,000	56,045	43,094	40,319	16,672	(1,659)	–	–
Net interest income	(3,808)	121,045	90,073	85,537	93,451	129,487	21,569	7,725	–	545,079
Fee and commission income	32,182	14,579	11,403	9,492	8,660	12,101	2,148	601	–	91,166
Fee and commission expense	(4,023)	(2,620)	(2,476)	(1,975)	(2,281)	(2,529)	(549)	(168)	–	(16,621)
Net fee and commission income	28,159	11,959	8,927	7,517	6,379	9,572	1,599	433	–	74,545
Net trading gain/(loss)	10,463	359	(151)	(156)	(110)	897	(76)	5,179	–	16,405
Net gain/(loss) on financial investments	4,058	(5,648)	(2,280)	(2,462)	(1,034)	(1,550)	(223)	1,827	–	(7,312)
Net gain on derecognition of financial assets measured at amortized cost	1	–	–	–	–	–	–	–	–	1
Other operating income	(1,839)	721	492	485	307	1,356	59	29,033	–	30,614
Operating income	37,034	128,436	97,061	90,921	98,993	139,762	22,928	44,197	–	659,332
Operating expenses	(15,628)	(33,097)	(24,797)	(28,845)	(33,345)	(47,362)	(13,395)	(33,428)	–	(229,897)
Credit impairment losses	(15,181)	(26,704)	(17,796)	(26,626)	(31,237)	(37,932)	(6,398)	(2,825)	–	(164,699)
Impairment losses on other assets	(1)	1	–	12	3	(130)	(38)	(51)	–	(204)
Operating profit	6,224	68,636	54,468	35,462	34,414	54,338	3,097	7,893	–	264,532
Share of results of associates and joint ventures	4	–	–	–	–	–	–	514	–	518
Profit before tax	6,228	68,636	54,468	35,462	34,414	54,338	3,097	8,407	–	265,050
Income tax expense										(48,650)
Profit for the year										216,400
Depreciation and amortization included in operating expenses	1,570	3,170	2,572	3,360	3,075	4,150	1,202	452	–	19,551
Capital expenditure	2,438	2,942	2,937	2,537	3,673	4,607	1,658	1,930	–	22,722
As at 31 December 2020										
Segment assets	5,956,432	5,698,994	3,443,268	4,676,597	3,917,314	5,231,854	1,175,767	1,207,010	(4,235,544)	27,071,692
Including: Investment in associates and joint ventures	210	–	–	–	–	–	–	8,655	–	8,865
Unallocated assets										133,355
Total assets										27,205,047
Including: Non-current assets (1)	12,523	31,128	18,944	28,896	27,810	42,014	11,127	27,410	–	199,852
Segment liabilities	(3,726,048)	(5,748,167)	(3,442,287)	(4,710,246)	(3,940,522)	(5,264,694)	(1,186,993)	(1,156,214)	4,235,544	(24,939,627)
Unallocated liabilities										(54,674)
Total liabilities										(24,994,301)
Loan commitments and financial guarantee contracts	32,779	970,556	558,971	496,243	422,731	523,658	77,342	87,024	–	3,169,304

(1) *Non-current assets include property and equipment, investment properties, right-of-use assets, land use rights, intangible assets and other long-term assets.*

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

Business operating segments

The details of the business operating segments are as follows:

Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products, corporate wealth management services and other types of corporate intermediary services.

Personal banking

The personal banking segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

Treasury operations

The Group's treasury operations conduct money market and repurchase transactions, debt instruments investments, precious metal transactions and derivative transactions for its own accounts or on behalf of customers.

Others

Others comprise components of the Group that are not attributable to any of the above segments, along with certain assets, liabilities, income or expenses of the Head Office that could not be allocated on a reasonable basis.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

Business operating segments (Continued)

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the year ended 31 December 2021					
External interest income	382,068	313,486	304,389	8,071	1,008,014
External interest expense	(129,812)	(210,635)	(86,184)	(3,396)	(430,027)
Inter-segment net interest (expense)/income	(24,981)	186,829	(161,848)	–	–
Net interest income	227,275	289,680	56,357	4,675	577,987
Fee and commission income	59,722	34,090	1,058	3,851	98,721
Fee and commission expense	(11,392)	(6,634)	(39)	(327)	(18,392)
Net fee and commission income	48,330	27,456	1,019	3,524	80,329
Net trading gain	–	–	11,040	3,201	14,241
Net (loss)/gain on financial investments	(7,181)	(75)	17,158	5,133	15,035
Net gain on derecognition of financial assets measured at amortized cost	–	–	11	–	11
Other operating income	1,475	1,341	357	30,970	34,143
Operating income	269,899	318,402	85,942	47,503	721,746
Operating expenses	(82,315)	(112,663)	(29,168)	(36,129)	(260,275)
Credit impairment losses	(111,269)	(49,672)	(4,567)	(378)	(165,886)
Impairment losses on other assets	(72)	(4)	(2)	(36)	(114)
Operating profit	76,243	156,063	52,205	10,960	295,471
Share of results of associates and joint ventures	–	–	–	409	409
Profit before tax	76,243	156,063	52,205	11,369	295,880
Income tax expense					(53,944)
Profit for the year					241,936
Depreciation and amortization included in operating expenses	5,230	10,484	3,630	453	19,797
Capital expenditure	5,933	13,909	5,510	1,592	26,944
As at 31 December 2021					
Segment assets	9,539,860	7,110,002	11,884,433	391,833	28,926,128
Including: Investment in associates and joint ventures	–	–	–	8,297	8,297
Unallocated assets					143,027
Total assets					29,069,155
Segment liabilities	(8,833,093)	(13,357,389)	(4,083,852)	(311,168)	(26,585,502)
Unallocated liabilities					(62,294)
Total liabilities					(26,647,796)
Loan commitments and financial guarantee contracts	1,213,942	874,363	–	–	2,088,305

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

Business operating segments *(Continued)*

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the year ended 31 December 2020					
External interest income	354,333	279,727	290,119	6,753	930,932
External interest expense	(120,316)	(194,091)	(68,422)	(3,024)	(385,853)
Inter-segment net interest (expense)/income	(12,647)	168,042	(155,395)	–	–
Net interest income	221,370	253,678	66,302	3,729	545,079
Fee and commission income	55,436	33,274	496	1,960	91,166
Fee and commission expense	(10,044)	(6,490)	(5)	(82)	(16,621)
Net fee and commission income	45,392	26,784	491	1,878	74,545
Net trading gain	–	–	8,920	7,485	16,405
Net (loss)/gain on financial investments	(7,284)	(4,180)	1,440	2,712	(7,312)
Net gain on derecognition of financial assets measured at amortized cost	–	–	1	–	1
Other operating income	1,375	1,321	25	27,893	30,614
Operating income	260,853	277,603	77,179	43,697	659,332
Operating expenses	(71,055)	(101,669)	(24,700)	(32,473)	(229,897)
Credit impairment losses	(112,122)	(37,359)	(13,706)	(1,512)	(164,699)
Impairment losses on other assets	(156)	4	–	(52)	(204)
Operating profit	77,520	138,579	38,773	9,660	264,532
Share of results of associates and joint ventures	–	–	–	518	518
Profit before tax	77,520	138,579	38,773	10,178	265,050
Income tax expense					(48,650)
Profit for the year					216,400
Depreciation and amortization included in operating expenses	4,397	11,209	3,544	401	19,551
Capital expenditure	4,076	12,708	4,491	1,447	22,722
As at 31 December 2020					
Segment assets	8,618,358	6,372,074	11,586,282	494,978	27,071,692
Including: Investment in associates and joint ventures	–	–	–	8,865	8,865
Unallocated assets					133,355
Total assets					27,205,047
Segment liabilities	(8,590,691)	(12,926,172)	(3,129,836)	(292,928)	(24,939,627)
Unallocated liabilities					(54,674)
Total liabilities					(24,994,301)
Loan commitments and financial guarantee contracts	2,146,637	1,022,667	–	–	3,169,304

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

County Area and Urban Area segments

The Group's operating segments organized by County Area and Urban Area banking business are set out as follows:

County Area banking business

The Group's County Area banking business provides a broad range of financial products and services to customers in designated County Area, through its operating branches in the counties or county-level cities throughout the PRC. The products and services mainly comprise loans, deposits, bank cards, and other types of intermediary services.

Urban Area banking business

The Group's Urban Area banking business comprises all banking activities outside of the County Area banking business, overseas branches and subsidiaries.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

County Area and Urban Area segments *(Continued)*

	County Area banking business	Urban Area banking business	Eliminations	Consolidated total
For the year ended 31 December 2021				
External interest income	259,517	748,497	–	1,008,014
External interest expense	(140,954)	(289,073)	–	(430,027)
Inter-segment net interest income/(expense)	136,984	(136,984)	–	–
Net interest income	255,547	322,440	–	577,987
Fee and commission income	38,344	60,377	–	98,721
Fee and commission expense	(7,388)	(11,004)	–	(18,392)
Net fee and commission income	30,956	49,373	–	80,329
Net trading gain	6,497	7,744	–	14,241
Net (loss)/gain on financial investments	(2,476)	17,511	–	15,035
Net gain on derecognition of financial assets measured at amortized cost	–	11	–	11
Other operating income	4,471	29,672	–	34,143
Operating income	294,995	426,751	–	721,746
Operating expenses	(104,046)	(156,229)	–	(260,275)
Credit impairment losses	(64,790)	(101,096)	–	(165,886)
Impairment losses on other assets	(48)	(66)	–	(114)
Operating profit	126,111	169,360	–	295,471
Share of results of associates and joint ventures	–	409	–	409
Profit before tax	126,111	169,769	–	295,880
Income tax expense				(53,944)
Profit for the year				241,936
Depreciation and amortization included in operating expenses	7,758	12,039	–	19,797
Capital expenditure	6,521	20,423	–	26,944
As at 31 December 2021				
Segment assets	10,419,215	18,612,453	(105,540)	28,926,128
Including: Investment in associates and joint ventures	–	8,297	–	8,297
Unallocated assets				143,027
Total assets				29,069,155
Segment liabilities	(9,631,167)	(17,059,875)	105,540	(26,585,502)
Unallocated liabilities				(62,294)
Total liabilities				(26,647,796)
Loan commitments and financial guarantee contracts	703,422	1,384,883	–	2,088,305

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

County Area and Urban Area segments (Continued)

	County Area banking business	Urban Area banking business	Eliminations	Consolidated total
For the year ended 31 December 2020				
External interest income	230,691	700,241	–	930,932
External interest expense	(121,062)	(264,791)	–	(385,853)
Inter-segment net interest income/(expense)	122,135	(122,135)	–	–
Net interest income	231,764	313,315	–	545,079
Fee and commission income	35,742	55,424	–	91,166
Fee and commission expense	(6,439)	(10,182)	–	(16,621)
Net fee and commission income	29,303	45,242	–	74,545
Net trading gain	221	16,184	–	16,405
Net loss on financial investments	(4,001)	(3,311)	–	(7,312)
Net gain on derecognition of financial assets measured at amortized cost	–	1	–	1
Other operating income	4,507	26,107	–	30,614
Operating income	261,794	397,538	–	659,332
Operating expenses	(91,401)	(138,496)	–	(229,897)
Credit impairment losses	(52,276)	(112,423)	–	(164,699)
Impairment losses on other assets	(27)	(177)	–	(204)
Operating profit	118,090	146,442	–	264,532
Share of results of associates and joint ventures	–	518	–	518
Profit before tax	118,090	146,960	–	265,050
Income tax expense				(48,650)
Profit for the year				216,400
Depreciation and amortization included in operating expenses	7,567	11,984	–	19,551
Capital expenditure	6,990	15,732	–	22,722
As at 31 December 2020				
Segment assets	9,638,372	17,570,020	(136,700)	27,071,692
Including: Investment in associates and joint ventures	–	8,865	–	8,865
Unallocated assets				133,355
Total assets				27,205,047
Segment liabilities	(8,942,453)	(16,133,874)	136,700	(24,939,627)
Unallocated liabilities				(54,674)
Total liabilities				(24,994,301)
Loan commitments and financial guarantee contracts	970,680	2,198,624	–	3,169,304

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS

(1) *The Group and the MOF*

As at 31 December 2021, the MOF directly owned 35.29% (31 December 2020: 35.29%) of the ordinary shares of the Bank.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditure, and establishing and enforcing taxation policies. It reports to the Chinese State Council.

The Group had the following balances and transactions with the MOF in its ordinary course of business under normal commercial terms:

	As at 31 December 2021		As at 31 December 2020	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Assets				
Treasury bonds and special government bond	**797,193**	**9.69%**	754,668	9.65%
Receivable from the MOF	**324,619**	**3.94%**	316,656	4.05%
Liabilities				
Due to customers	**4,018**	**0.02%**	8,385	0.04%
Other liabilities				
— redemption of treasury bonds on behalf of the MOF	**4**	**0.00%**	4	0.00%
— amount payable to the MOF	**1,286**	**0.26%**	711	0.14%

	Year ended 31 December			
	2021		2020	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**28,513**	**2.83%**	30,376	3.26%
Interest expense	**(50)**	**0.01%**	(100)	0.03%
Fee and commission income	**1,133**	**1.15%**	1,294	1.42%
Net trading gain	**126**	**0.88%**	95	0.58%

Interest rate ranges for transactions with the MOF during the year are as follows:

	Year ended 31 December	
	2021	2020
	%	%
Treasury bonds and receivable from the MOF	**0.00–9.00**	0.00–9.00
Due to customers	**0.01–0.80**	0.00–2.81

The Group's redemption commitment for treasury bonds underwriting is disclosed in Note IV 42 Contingent Liabilities and Commitments.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(2) The Group and Huijin

Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of China Investment Corporation Limited, which is incorporated in Beijing, PRC. Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the Chinese State Council and does not engage in other commercial activities. Huijin exercises its legal rights and assumes obligations related to the Bank on behalf of the PRC Government.

As at 31 December 2021, Huijin directly owned 40.03% (31 December 2020: 40.03%) of the ordinary shares of the Bank.

Transactions with Huijin

The Group had the following balances and transactions with Huijin in its ordinary course of business. These balances and transactions are priced based on market prices and conducted under normal commercial terms.

	As at 31 December 2021		As at 31 December 2020	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Assets				
Loans and advances to customers	**–**	**–**	3,951	0.03%
Financial investments	**52,357**	**0.64%**	67,509	0.86%
Liabilities				
Due to customers	**38,090**	**0.17%**	5,447	0.03%

	Year ended 31 December			
	2021		2020	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**1,787**	**0.18%**	2,844	0.31%
Interest expense	**(616)**	**0.14%**	(148)	0.04%
Net trading gain	**23**	**0.16%**	29	0.18%

Interest rate ranges for transactions with Huijin during the year are as follows:

	Year ended 31 December	
	2021	2020
	%	%
Loans and advances to customers	**N/A**	3.55–3.92
Financial investments	**2.15–4.38**	2.15–5.15
Due to customers	**0.45–2.10**	1.73–2.25

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(2) *The Group and Huijin* (Continued)

Transactions with companies under Huijin

Huijin has equity interests in certain other banks and financial institutions under the direction of the Central Government. The Group enters into transactions with these banks and financial institutions in the ordinary course of business. These balances and transactions are priced based on market prices and conducted under normal commercial terms. The Group had the following balances with companies under Huijin:

	As at 31 December 2021		As at 31 December 2020	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Assets				
Deposits with banks and other financial institutions	**88,842**	**40.66%**	89,726	20.67%
Placements with and loans to banks and other financial institutions	**123,271**	**27.58%**	100,125	18.31%
Derivative financial assets	**4,003**	**18.21%**	17,137	27.67%
Financial assets held under resale agreements	**27,577**	**3.29%**	27,349	3.35%
Loans and advances to customers	**20,935**	**0.13%**	64,047	0.44%
Financial investments	**736,027**	**8.94%**	731,695	9.35%
Liabilities				
Deposits from banks and other financial institutions	**79,144**	**4.88%**	92,890	6.66%
Placements from banks and other financial institutions	**68,168**	**23.42%**	147,049	37.64%
Derivative financial liabilities	**2,747**	**14.21%**	11,259	17.25%
Financial assets sold under repurchase agreements	**9,909**	**27.50%**	48,444	44.36%
Due to customers	**4,159**	**0.02%**	3,921	0.02%
Equity				
Other equity instruments	**2,000**	**0.56%**	2,000	0.63%
Off-balance sheet items				
Letters of guarantee issued and guarantees	**1,800**	**0.59%**	–	–
Non-principal guaranteed wealth management products issued by the Group	**–**	**–**	3,000	0.15%

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(3) National Council for Social Security Fund of the People's Republic of China

As at 31 December 2021, the Bank's shares held by SSF accounted for 6.72% of the Bank's total share capital (31 December 2020: 6.95%). The daily business transactions between the Group and the SSF are priced based on market prices and conducted on normal commercial terms. The Group had the following balances and transactions with the SSF:

	As at 31 December 2021		As at 31 December 2020	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Assets				
Financial assets held under resale agreements	**43,755**	**5.22%**	33,966	4.16%
Liabilities				
Due to customers	**65,415**	**0.30%**	51,827	0.25%
Equity				
Other equity instruments	**1,250**	**0.35%**	1,250	0.39%

	Year ended 31 December			
	2021		2020	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**32**	**0.00%**	158	0.02%
Interest expense	**(2,226)**	**0.52%**	(2,026)	0.53%

Interest rate ranges for transactions with SSF during the year are as follows:

	Year ended 31 December	
	2021	2020
	%	%
Financial assets held under resale agreements	**2.58–3.90**	0.63–3.35
Due to customers	**0.46–4.26**	0.30–5.20
Other equity instruments	**4.84**	4.84

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(4) The Group and other government related entities

Other than disclosed above, a significant portion of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other State controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency services, underwriting and distribution of bonds issued by government agencies, purchase, sales and redemption of investment securities issued by government agencies.

Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other State controlled entities.

(5) The Bank and its subsidiaries

The Bank had the following balances and transactions with its subsidiaries in its ordinary course of business. These balances and transactions are priced based on market prices and conducted under normal commercial terms.

	As at 31 December 2021		As at 31 December 2020	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Assets				
Placements with and loans to banks and other financial institutions	**84,863**	**18.99%**	87,643	16.02%
Financial assets held under resale agreements	**–**	**–**	1,786	0.22%
Financial investments	**365**	**0.00%**	6,230	0.08%
Other assets	**102**	**0.08%**	24	0.02%
Liabilities				
Deposits from banks and other financial institutions	**14,079**	**0.87%**	18,657	1.34%
Due to customers	**1,857**	**0.01%**	1,624	0.01%
Other liabilities	**986**	**0.20%**	753	0.14%
Off-balance sheet items				
Letters of guarantee issued and guarantees	**2,034**	**0.67%**	8,482	3.21%
Non-principal guaranteed wealth management products issued by the Group	**16**	**0.00%**	331	0.02%

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(5) *The Bank and its subsidiaries (Continued)*

	Year ended 31 December			
	2021		2020	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**1,440**	**0.14%**	1,568	0.17%
Net gain on financial investments	**1**	**0.00%**	107	0.65%
Fee and commission income	**1,777**	**1.80%**	1,807	1.98%
Other operating income	**94**	**0.30%**	9	0.03%
Interest expense	**(368)**	**0.09%**	(373)	0.10%
Fee and commission expense	**(321)**	**1.75%**	(909)	5.47%
Operating expense	**(242)**	**0.09%**	(197)	0.09%

	Year ended 31 December	
	2021	2020
	%	%
Placements with and loans to banks and other financial institutions	**1.21–3.65**	0.04–4.10
Financial assets held under resale agreements	**N/A**	1.44–2.96
Financial investments	**0.00–3.68**	2.50–4.70
Deposits from banks and other financial institutions	**0.00–5.12**	0.00–4.13
Due to customers	**0.30–1.85**	0.30–3.15

(6) *The Group and its associates and joint venture*

The Group had the following balances and transactions with its associates and joint venture in its ordinary course of business. These balances and transactions are priced based on market prices and conducted under normal commercial terms.

	As at 31 December 2021		As at 31 December 2020	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Liabilities				
Deposits from banks and other financial institutions	**16**	**0.00%**	–	–
Off-balance sheet items				
Non-principal guaranteed wealth management products issued by the Group	**4**	**0.00%**	–	–

	Year ended 31 December			
	2021		2020	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**–**	**–**	1	0.00%
Interest expense	**0**	**0.00%**	–	–

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(6) *The Group and its associates and joint venture* (Continued)

	Year ended 31 December	
	2021	2020
	%	%
Placements with and loans to banks and other financial institutions	**N/A**	2.00–2.44
Deposits from banks and other financial institutions	**0.00–0.72**	N/A

(7) *Key management personnel*

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group. Key management personnel of the Group, their close relatives, and entities that are controlled, jointly controlled, or significantly influenced by either the key management personnel of the Group or their close relatives, are considered as related parties of the Group. The Group enters into banking transactions with above related parties in the normal course of business. As at 31 December 2021, the balance of loans and advances to the above related parties is RMB10.40 million (31 December 2020: RMB6.85 million).

The remuneration of Directors and other members of key management during the years was as follows:

	Year ended 31 December	
	2021	2020
Salaries, bonuses and staff welfare	**11.94**	15.91

According to the regulations of the relevant authorities in the PRC, the key management personnel's final emoluments for the year ended 31 December 2021 have not been finalized. Management of the Group believes that the difference between the final emoluments and that disclosed above will not have significant impact on the consolidated financial statements of the Group. The final compensation will be disclosed in a separate announcement when determined.

The compensation of key management personnel for the year ended 31 December 2020 was not decided at the time when the Group's 2020 consolidated financial statements were released and the amount of remuneration of Directors and other members of key management recognized in the consolidated income statement for the year of 2020 was RMB9.99 million. Supplementary announcement on final compensation of RMB15.91 million was released by the Bank on 30 August 2021. The comparative figures for the year of 2020 have been restated accordingly.

(8) *Related natural persons transactions*

The Group issued loan and credit card business to related natural persons (as defined in the Administrative Measures on Information Disclosure by Listed Companies issued by the CSRC). As at 31 December 2021, the balance of such loan amounted to RMB11.97 million (31 December 2020: RMB12.87 million).

As at 31 December 2021, the Bank's balance of credit related transactions to the related natural persons, and entities that are controlled, jointly controlled, or significantly influenced by either the key management personnel of the Group or their close relatives as defined in the Administration of Connected Transactions between Commercial Banks and Their Insiders totaled RMB4,085 million (31 December 2020: RMB3,064 million), and did not have any non credit transaction balance (31 December 2020: nil).

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(9) The Group and the Annuity Scheme

The Group had the following balances and transactions with the Annuity Scheme set up by the Bank apart from the obligation for defined contribution to the Annuity Scheme:

	As at 31 December 2021		As at 31 December 2020	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Liabilities				
Deposits from Annuity Scheme	**6,319**	**0.03%**	4,326	0.02%
Equity				
Other equity instruments	**7,500**	**2.08%**	7,750	2.42%

	Year ended 31 December			
	2021		2020	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest expense	**(240)**	**0.06%**	(185)	0.05%

Interest rate range for transactions with the Annuity Scheme during the year is as follows:

	Year ended 31 December	
	2021	2020
	%	%
Deposits from Annuity Scheme	**0.00–5.00**	0.00–5.00
Other equity instruments	**4.84–5.32**	4.84–5.32

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(10) Proportion of transactions with major related parties

Related party transactions with subsidiaries have been offset in the process of preparing consolidated financial statements. When calculating the proportion of related party transactions, related party transactions do not include related party transactions with subsidiaries.

Transaction Balance

	As at 31 December 2021		As at 31 December 2020	
	Related party transactions	**Proportion**	Related party transactions	Proportion
Deposits from banks and other financial institutions	**88,842**	**40.66%**	89,726	20.67%
Placements with and loans to banks and other financial institutions	**123,271**	**27.58%**	100,125	18.31%
Derivative financial assets	**4,003**	**18.21%**	17,137	27.67%
Financial assets held under resale agreements	**71,332**	**8.52%**	61,315	7.51%
Loans and advances to customers	**20,935**	**0.13%**	67,998	0.47%
Financial investments	**1,910,196**	**23.21%**	1,870,528	23.91%
Deposits from banks and other financial institutions	**79,160**	**4.88%**	92,890	6.66%
Placements from banks and other financial institutions	**68,168**	**23.42%**	147,049	37.64%
Derivative financial liabilities	**2,747**	**14.21%**	11,259	17.25%
Financial assets sold under repurchase agreements	**9,909**	**27.50%**	48,444	44.36%
Due to customers	**118,001**	**0.54%**	73,906	0.36%
Other liabilities	**1,290**	**0.26%**	715	0.14%
Other equity instruments	**10,750**	**2.99%**	11,000	3.44%
Letters of guarantee issued and guarantees	**1,800**	**0.59%**	–	–
Non-principal guaranteed wealth management products issued by the Group	**4**	**0.00%**	3,000	0.15%

Transaction amount

	Year ended 31 December			
	2021		2020	
	Related party transactions	**Proportion**	Related party transactions	Proportion
Interest income	**30,332**	**3.01%**	33,379	3.59%
Interest expense	**(3,132)**	**0.73%**	(2,459)	0.64%
Net trading gain	**149**	**1.05%**	124	0.76%
Fee and commission income	**1,133**	**1.15%**	1,294	1.42%

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 STRUCTURED ENTITIES

(1) Consolidated structured entities

Principal guaranteed WMPs sponsored and managed by the Group

Principal guaranteed WMPs sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities are measured at fair value through profit or loss, respectively. As at 31 December 2021, the principal-guaranteed WMPs has fully settled at maturity.

Other consolidated structured entities

Other structured entities consolidated by the Group include certain asset management plans, funds and securitization products issued, managed and/or invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

(2) Unconsolidated structured entities

Unconsolidated structured entities sponsored and managed by the Group

Unconsolidated structured entities sponsored and managed by the Group mainly include non-principal guaranteed WMPs, which are not subject to any guarantee by the Group of the principal invested or interest to be paid. The WMPs invest in a range of assets, most typically money market instruments, debt securities and non-standardized debt assets. As the manager of these WMPs, the Group, on behalf of the investors in these WMPs, invests the funds raised from investors to the assets as described in the investment plan related to each WMP and distributes profit to investors based on product performance.

As at 31 December 2021, the total assets invested by these WMPs amounted to RMB2,210,935 million (31 December 2020: RMB2,170,621 million) and the corresponding outstanding WMPs issued by the Group amounted to RMB2,072,533 million (31 December 2020: RMB1,949,722 million). During the year ended 31 December 2021, the Group's interest in these WMPs included net fee and commission income of RMB6,129 million (2020: RMB6,243 million) and net interest income of RMB426 million (2020: RMB632 million), which related to placements and repo transactions entered into by the Group with these WMP Vehicles.

The Group enters into placements and repo transactions at market interest rates with these WMPs. The average balance and the weighted average maturity during 2021 were RMB14,238 million and 6.42 days (2020: RMB23,423 million and 6.25 days), respectively. And there was no outstanding balance for the above-mentioned transactions at 31 December 2021 (31 December 2020: RMB143,545 million). The Group was under no obligation to enter into these transactions. The outstanding balance of these transactions was presented in placements with and loans to banks and other financial institutions and financial assets held under resale agreements, which represented the Group's maximum exposure to the WMPs.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 STRUCTURED ENTITIES (Continued)

(2) *Unconsolidated structured entities* (Continued)

Unconsolidated structured entities sponsored and managed by the Group (Continued)

There were no contractual liquidity arrangements, guarantees or other commitments between the Group and any third parties that could increase the level of the Group's risk from WMPs disclosed above during the period ended 31 December 2021 and 31 December 2020. The Group was not required to absorb any losses incurred by WMPs.

In addition, other unconsolidated structured entities sponsored and managed by the Group included funds, asset management plans and asset-backed securities. As at 31 December 2021, the total assets of these products amounted to RMB463,451 million (31 December 2020: RMB448,388 million). During the year ended 31 December 2021, the Group's interest in these products mainly included net fee and commission income of RMB1,530 million (2020: RMB877 million).

Other unconsolidated structured entities held by the Group

The Group invests in other unconsolidated structured entities which are sponsored and managed by other entities for investment return, and records trading gains or losses and interest income therefrom. These unconsolidated structured entities primarily include asset management plans, wealth management, funds, trust plans, asset-backed securities and debt investment plans. etc. As at 31 December 2021, the related carrying amount of investments and the maximum exposure by the Group to these other unconsolidated structured entities was RMB80,229 million (31 December 2020: RMB92,193 million), included under the financial assets at fair value through profit or loss, debt instrument investments at amortized cost and other debt instrument investments at fair value through other comprehensive income categories in the consolidated statement of financial position. The information on the size of total assets of these unconsolidated structured entities was not readily available in the public domain.

42 CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings and others

The Bank and its subsidiaries are involved as demandants/defendants in certain lawsuits arising from their normal business operations. As at 31 December 2021, provisions of RMB5,333 million were made by the Group (31 December 2020: RMB5,560 million) based on court judgments or advice of legal counsel, and included in Note IV 31 Other Liabilities. Management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

On 28 September 2016, the Bank and its New York Branch entered into a Cease and Desist Order with the Board of Governors of the Federal Reserve System of the United States. On 4 November 2016, the Bank and its New York Branch entered into a Consent Order with New York State Department of Financial Services (the "Department") and paid a civil monetary penalty to the Department accordingly. As at 31 December 2016, the above-mentioned civil monetary penalty was paid and reflected in the consolidated financial statements for the year ended 31 December 2016.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Legal proceedings and others (Continued)

As at 31 December 2021, the Bank and its New York Branch have basically completed the main part of the rectification, and it is expected that this event is unlikely to lead to the outflow of economic benefits.

Capital commitments

	As at 31 December	
	2021	2020
Contracted but not provided for	**1,961**	2,507

Loan commitments and financial guarantee contracts

	As at 31 December	
	2021	2020
Loan commitments		
— With an original maturity of less than 1 year	**21,567**	207,288
— With an original maturity of 1 year or above	**438,333**	1,409,990
Subtotal	**459,900**	1,617,278
Bank acceptances	**414,934**	429,841
Credit card commitments	**743,594**	695,183
Guarantee and letters of guarantee	**304,238**	264,646
Letters of credit	**165,639**	162,356
Total	**2,088,305**	3,169,304

Loan commitments and financial guarantee contracts represent credit cards and general credit facility limits granted to customers. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantee and letters of guarantee or bank acceptances.

Credit risk weighted amount for credit commitments

Credit risk weighted amount for credit commitments represents the counterparty credit risk associated with credit commitments and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC which was effective 1 January 2013 and is dependent on, among other factors, creditworthiness of counterparties and maturity characteristics of each type of contract. As at 31 December 2021 and 31 December 2020, credit risk weighted amount for credit commitments was measured under the Internal Ratings-Based approach.

	As at 31 December	
	2021	2020
Credit risk weighted amount for credit commitments	**1,178,909**	1,240,078

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Collateral

Assets pledged

At the end of each reporting period, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	As at 31 December	
	2021	2020
Debt securities	**33,407**	114,573
Bills	**4,749**	1,327
Total	**38,156**	115,900

As at 31 December 2021, the financial assets sold under repurchase agreements by the Group (disclosed in Note IV 28) amounted to RMB36,033 million (31 December 2020: RMB109,195 million). Repurchase agreements are primarily due within 1 years from the effective dates of these agreements.

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note IV 43 Transferred Financial Assets.

In addition, debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions and borrowings from central banks etc. by the Group as at 31 December 2021 amounted to RMB1,095,330 million in total (31 December 2020: RMB1,026,931 million).

Collateral accepted

The Group received debt securities and bills as collateral in connection with the securities lending transactions and the purchase of assets under resale agreements (Note IV 16 Financial Assets Held Under Resale Agreements). The Group did not hold any collateral that can be resold or re-pledged as at 31 December 2021 and 31 December 2020.

Redemption commitment for treasury bonds

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at par at any time prior to maturity and the Group is committed to honor such redemption requests. The redemption price is calculated as the par value of the bond plus payable interest in accordance with the terms of the related early redemption arrangement.

As at 31 December 2021, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity was RMB63,405 million (31 December 2020: RMB67,622 million). The original maturities of these bonds vary from 3 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

Commitment on security underwriting

As at 31 December 2021, the unexpired securities underwriting obligations of the Group amounted to RMB140 million (31 December 2020: None).

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business whereby it transfers recognized financial assets to third parties or to structured entities. In some cases these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group retains substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Securitization transactions

The Group enters into securitization transactions by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed, among other factors, whether or not to derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its control over these assets based on the criteria as detailed in Note II 8.7 and Note III 6.

As at 31 December 2021, the total amount of unexpired asset-backed securities included accumulative loans transferred by the Group before impairment allowance was RMB102,388 million (31 December 2020: RMB69,291 million). RMB6,706 million of this balance (31 December 2020: RMB14,130 million) was in respect of non-performing loans and the Group concluded that these loans transferred were qualified for full derecognition. The remaining balance of RMB95,682 million (31 December 2020: RMB55,161 million) was in respect of performing loans and the Group concluded that it had continuing involvement in these assets. As at 31 December 2021, the Group continued to recognize assets of RMB9,691 million (31 December 2020: RMB6,564 million) under loans and advances to customers. The Group also recognized other assets and other liabilities of the same amount arising from such continuing involvement.

Transfer of non-performing loans

During the year ended 31 December 2021, the Group transferred non-performing loans through disposal to third parties or issuing asset-back securities, with gross loan balance of RMB16,542 million (2020: RMB27,837 million). The Group carried out an assessment based on the criteria as detailed in Note II 8.7 and Note III 6 and concluded that these transferred assets qualified for full derecognition.

Financial assets sold under repurchase agreements

The Group did not derecognize financial assets transferred as collateral in connection with repurchase agreements. As at 31 December 2021, book value of these collateral pledged disclosed in Note IV 42 Contingent Liabilities and Commitments — Collateral, RMB707 million (31 December 2020: RMB4,050 million) represented debt securities whereby legal title has been transferred to counterparties.

Securities lending transactions

For debt securities lent to counterparties under securities lending agreements, the counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. As at 31 December 2021, there was no debt securities lent to counterparties (31 December 2020: RMB17,150 million).

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT

Overview

The Group's primary risk management objective is to maintain risk within acceptable parameters to meet the requirements of regulators, depositors and other stakeholders, as well as to maximize return for investors within an acceptable level of risk.

The Group has designed risk management policies, which address, among other things, the establishment of risk limits and controls to identify, analyze, monitor and report risks. Relevant and timely information used to conduct these risk management activities is provided through information systems maintained by the Group and is intended to address the Group's information needs in this area. The Group regularly reviews its risk management policies and systems to address changes in markets, products and emerging best practices.

The most significant types of risk to which the Group is exposed are credit risk, market risk and liquidity risk. Market risk includes foreign exchange rate risk, interest rate risk and other price risk.

Risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving its risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal rules, measures and procedures related to risk management. The Risk Management Department of the Group implements procedures for managing the significant risks to which the Group is exposed.

44.1 Credit risk

Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations when due. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advance, commitment or investment. The Group's major credit risks arise from loans and advances, treasury operations and off-balance sheet related credit risk exposures.

The Group's credit risk management and governance structure comprise the Board of Directors and its Risk Management Committee, Senior Management and its Risk Management Committee, Credit Approval Committee and Asset Disposal Committee, as well as the Risk Management Department, Credit Management Department, Credit Approval Department and related front-office customer departments. The Group's credit risk management function operates under a centralized management and authorization under a range of specified limits.

The Group performs standardized credit management procedures, including credit due diligence and proposal submission, credit underwriting review, loan disbursement, post-lending monitoring and non-performing loan management. The Group enhances its credit risk management by strictly complying with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post-lending monitoring measures; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrading its credit management system.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Credit risk management (Continued)

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity and where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

During the reporting period, the Group continued to improve the comprehensive risk management system to ensure effective risk management. The Group strengthened credit risk management in key areas and asset quality control. The Group accelerated the disposal of non-performing loans to ensure the stability of assets quality.

Apart from the credit risk exposures on credit-related assets, the credit risk arising from treasury operation business is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and applying appropriate limits subject to different level of management authority, and timely reviewing and adjusting those limits in credit system. In addition, the Group also provide loan commitments and financial guarantee services to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the related contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures.

Measurement of ECL

The Group applies the ECL model to calculate loss allowances for its debt financial instruments measured at amortized cost and FVOCI, as well as loan commitments and financial guarantee contracts.

Methods applied by the Group in assessing the expected credit losses of its financial assets include risk parameters model and the discounted cash flow ("DCF") model. Retail credit assets and Stage I and Stage II wholesale credit assets are assessed using risk parameters, while Stage III wholesale credit assets are subject to the discounted cash flow method.

The Group assesses ECL in light of forward-looking information and uses models and assumptions in calculating the expected credit losses. These models and assumptions relate to the future macroeconomic conditions and the borrowers' creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). In assessing the expected credit risks in accordance with accounting standards, the Group uses the judgments, assumptions and estimates where appropriate, including:

— Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL

— Parameters for measuring ECL

— Criteria for significant increase in credit risk and default definition

— Definition of credit-impaired financial asset

— Forward-looking information

— Estimation of future cash flows for Stage III wholesale credit assets

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Measurement of ECL (Continued)

Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL

For measurement of ECL, segmentation of portfolio is based on similar credit risk characteristics. The Group classified clients into wholesale clients and retail clients based on the nature of debtors. In performing the portfolio segmentation of wholesale credit assets, the Group considers the type of borrower, industry, loan usage, and security type. When performing the portfolio segmentation for retail credit assets, the Group considers loan product type and security type to ensure the reliability of its credit risk segmentation.

Parameters for measuring ECL

According to whether there is a significant increase in credit risk and whether a financial asset has become credit-impaired, the Group recognizes an impairment allowance based on the expected credit loss for the next 12 months or the entire lifetime of the financial asset. The relevant parameters of ECL measurement include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group establishes its PD models, LGD models and EAD models based on the internal rating based system as currently used for its risk management purpose, in accordance with the requirements of IFRS 9, in light of quantitative analysis of historical statistics (such as counterparty ratings, guarantee methods and collateral types, repayment methods, etc.) and forward-looking information.

The parameters are defined as follows:

— PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months ("12m PD"), or over the remaining lifetime ("Lifetime PD") of the obligation;

— EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months ("12m EAD") or over the remaining lifetime ("Lifetime EAD");

— LGD represents the Group's expectation of the extent of loss on defaulted exposure. It varies depending on the type of counterparty, method of recourse and priority, and the availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

Criteria for significant increase in credit risk ("SICR") and default definition

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. For the purpose of staging assessment of its financial assets, the Group thoroughly considers various reasonable and supportable information that may reflect whether or not there has been a significant change in their credit risk, including forward-looking information. Key factors considered include regulatory and operating environments, internal and external credit ratings, solvency, viability as a going concern, terms of loan contracts, repayment behaviors, among others. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments. The definition of default refers to the failure to pay the debt as agreed in the contract, or other violations of the debt contract and have a significant impact on the normal debt repayment.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Measurement of ECL (Continued)

Criteria for significant increase in credit risk ("SICR") and default definition (Continued)

The Group sets quantitative and qualitative criteria to determine whether or not the credit risk of a financial instrument has increased significantly since its initial recognition. The criteria include changes in the borrower's PD, changes in its credit risk classification and other factors. In particular, when the credit risk classification changes from Normal upon initial recognition to Special Mention, there has been SICR. When the borrower's PD rises to a certain level, there has been a significant increase in credit risk. Criteria to determine significant increase in credit risk varied based on the original PD upon initial recognition. If the borrower's original PD is relatively low (for example, lower than 3%), there has been a significant increase in credit risk when the credit grade falls at least 6 notches. If the criteria to determine significant increase in credit risk moves up or down by one notch, the impact on the allowance of expected credit loss on 31 December 2021 is less than 5%. According to IFRS 9, a backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The Group recognizes a financial instrument as having low credit risk if its internal rating is consistent with the globally accepted definition for low credit risk (e.g. external "investment grade" ratings).

Definition of credit-impaired financial asset

The criteria adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives for relevant financial instruments, in addition to consideration of quantitative and qualitative indicators. In assessing whether a borrower has become credit-impaired, the Group mainly considers the following factors:

— Significant financial difficulty of the issuer or the borrower;

— A breach of contract, such as a default or past due event in relation to interest or principal payment;

— The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

— It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

— The disappearance of an active market for that financial asset because of financial difficulties;

— The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;

— The borrower is overdue for more than 90 days in any principal, advances, interest or investment in bonds due to the Group.

The credit impairment of a financial asset may be caused by the combined effect of multiple events rather than any single discrete event.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Measurement of ECL (Continued)

Forward-looking information

The assessment of whether or not there has been a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the macroeconomic indicators that affect the credit risk and ECL of various portfolio. Macroeconomic indicators include Gross Domestic Product (GDP), Consumer Price Index (CPI) and Industrial Added Value, etc.

The impact of these economic indicators on the PDs and the LGDs varies from one portfolio to another. The Group comprehensively considers internal and external data, expert forecasts and statistical analysis to determine the correlation between these economic indicators and the PDs and LGDs. The Group assesses and forecasts these economic indicators at least on an annual basis, calculates the best estimates for the future, and regularly reviews and assesses results.

As at 31 December 2021, the Group has assessed and forecasted the relevant macroeconomic indicators for 2022, of which the forecast value of 2022 GDP growth rate under each scenario is as follows: 5.30% under base scenario, 6.36% under upside scenario, and 2.68% under downside scenario.

Based on statistical analysis and expert judgements, the Group determines the weightings of multiple scenarios and the corresponding macroeconomic forecast under each scenario. The weighting of base scenario is greater than the aggregated weightings of the rest scenarios. At 31 December 2021, the weightings of the Group's base, upside and downside scenarios have not changed from 31 December 2020. The Group uses the weighted 12-month ECL (Stage I) or weighted lifetime ECL (Stage II and Stage III) to measure relevant impairment allowances. These weighted credit losses are calculated by multiplying the expected credit loss under each scenario by the assigned scenario weighting.

A sensitivity analysis is performed on indicators used in forward-looking measurement. When the assigned weightings of upside scenario and downside scenario change by 10% and the forecast of economic indicators change accordingly, the impact on the allowance of expected credit loss is less than 5%.

Estimation of future cash flows for Stage III wholesale credit assets

The Group measures the ECL for stage III wholesale credit assets using DCF method. Under DCF method, the loss allowance is calculated based on the estimation of future cash flows. At each measurement date, the Group projects the future cash inflows of relevant assets under different scenarios to estimate the probability weighted cash flow of each future period. The cash flows are discounted and aggregated to get the present value of the assets' future cash flows.

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the worst case of credit risk exposure at the end of each reporting period, without considering any available collateral held or other credit enhancements. The credit risk exposure to the Group primarily arises from credit、treasury and operations. In addition, off-balance sheet items such as loan commitments, credit card commitments, bank acceptances, guarantee and letters of guarantee and letters of credit also include credit risks.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)

A summary of the maximum exposure to credit risk is as follows:

	Notes	As at 31 December	
		2021	2020
Balances with central banks		**2,246,796**	2,360,994
Deposits with banks and other financial institutions		**218,500**	434,185
Placements with and loans to banks and other financial institutions		**446,944**	546,948
Derivative financial assets		**21,978**	61,937
Financial assets held under resale agreements		**837,637**	816,206
Loans and advances to customers	(i)	**16,454,503**	14,552,433
Financial investments			
Financial assets at fair value through profit or loss		**328,769**	469,308
Debt instrument investments at amortized cost	(ii)	**6,372,522**	5,684,220
Other debt instrument investments at fair value through other comprehensive income	(iii)	**1,392,691**	1,551,439
Other financial assets		**77,881**	101,562
Subtotal		**28,398,221**	26,579,232
Loan commitments and financial guarantee contracts	(iv)	**2,068,034**	3,133,548
Total		**30,466,255**	29,712,780

(i) Maximum exposure to credit risk for loans and advances disclosed in credit risk levels

The Group classified the credit risk levels of financial assets measured by ECL into "Low" (credit risk in good condition), "Medium" (increased credit risk), and "High" (credit risk in severe condition), based on the quality of assets. The credit risk level is used for the purpose of the group's internal credit risk management. "Low" refers to assets with good credit quality. There is no sufficient reason to doubt that the assets are not expected to fulfill its contractual obligation to repay or if there is any other behaviors breaching the debt contracts that would significantly impact the repayment of debt according to contract terms. "Medium" refers to assets facing obvious negative factors impacting its repayment capacity, but not yet have non-repayment behaviors. "High" refers to non-repayment according to the debt contract terms, or other behaviors breaching the debt contracts or having significant impact on the repayment of debt according to contract terms.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements *(Continued)*

(i) Maximum exposure to credit risk for loans and advances disclosed in credit risk levels (Continued)

Corporate loans and advances	**As at 31 December 2021**		
	Stage I 12m ECL	**Stage II & Stage III Lifetime ECL**	**Total**
Credit risk grade			
Low	**9,588,174**	**16,422**	**9,604,596**
Medium	**–**	**203,289**	**203,289**
High	**–**	**209,519**	**209,519**
Gross carrying amount	**9,588,174**	**429,230**	**10,017,404**
Allowance for impairment loss	**(336,129)**	**(191,135)**	**(527,264)**
Net amount	**9,252,045**	**238,095**	**9,490,140**

Personal Loans and advances	**As at 31 December 2021**		
	Stage I 12m ECL	**Stage II & Stage III Lifetime ECL**	**Total**
Credit risk grade			
Low	**7,071,624**	**–**	**7,071,624**
Medium	**–**	**49,781**	**49,781**
High	**–**	**36,264**	**36,264**
Gross carrying amount	**7,071,624**	**86,045**	**7,157,669**
Allowance for impairment loss	**(163,988)**	**(29,318)**	**(193,306)**
Net amount	**6,907,636**	**56,727**	**6,964,363**

Corporate loans and advances	As at 31 December 2020		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	8,439,076	21,073	8,460,149
Medium	–	258,288	258,288
High	–	198,795	198,795
Gross carrying amount	8,439,076	478,156	8,917,232
Allowance for impairment loss	(269,354)	(189,331)	(458,685)
Net amount	8,169,722	288,825	8,458,547

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)

(i) Maximum exposure to credit risk for loans and advances disclosed in credit risk levels (Continued)

Personal Loans and advances	As at 31 December 2020		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	6,134,472	–	6,134,472
Medium	–	46,047	46,047
High	–	38,318	38,318
Gross carrying amount	6,134,472	84,365	6,218,837
Allowance for impairment loss	(128,414)	(30,910)	(159,324)
Net amount	6,006,058	53,455	6,059,513

The above information on the maximum exposure to credit risk of loans and advances to customers does not include loans and advances to customers measured at fair value through profit or loss.

(ii) Maximum exposure to credit risk for debt instrument investments at amortized cost disclosed in credit risk levels

	As at 31 December 2021		
	Stage I 12m ECL	**Stage II & Stage III Lifetime ECL**	**Total**
Credit risk grade			
Low	**6,389,720**	**–**	**6,389,720**
Medium	**–**	**548**	**548**
High	**–**	**1,281**	**1,281**
Gross carrying amount	**6,389,720**	**1,829**	**6,391,549**
Allowance for impairment loss	**(17,764)**	**(1,263)**	**(19,027)**
Net amount	**6,371,956**	**566**	**6,372,522**

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)

(ii) Maximum exposure to credit risk for debt instrument investments at amortized cost disclosed in credit risk levels (Continued)

	As at 31 December 2020		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	5,697,187	–	5,697,187
Medium	–	2,064	2,064
High	–	1,073	1,073
Gross carrying amount	5,697,187	3,137	5,700,324
Allowance for impairment loss	(14,850)	(1,254)	(16,104)
Net amount	5,682,337	1,883	5,684,220

(iii) Maximum exposure to credit risk for other debt instrument investments at fair value through other comprehensive income disclosed in credit risk levels

	As at 31 December 2021		
	Stage I 12m ECL	**Stage II & Stage III Lifetime ECL**	**Total**
Credit risk grade			
Low	**1,390,789**	**399**	**1,391,188**
Medium	**–**	**1,471**	**1,471**
High	**–**	**32**	**32**
Gross carrying amount	**1,390,789**	**1,902**	**1,392,691**

	As at 31 December 2020		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	1,545,343	–	1,545,343
Medium	–	6,030	6,030
High	–	66	66
Gross carrying amount	1,545,343	6,096	1,551,439

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)

(iv) Maximum exposure to credit risk for loan commitments and financial guarantee contracts is balance after estimated contingent liabilities. Majority of loan commitments and financial guarantee contracts is in Stage I with credit risk grade as "Low".

(v) As at 31 December 2021 and 31 December 2020, in its deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, and financial assets held under resale agreements, the Group had insignificant balances with "Medium" or "High" credit risk grade and classified as Stage II or Stage III assets, and no default had occurred.

(vi) The Group has implemented specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level. The most typical practice is obtaining guarantee deposits, collateral and guarantees. The amount and type of acceptable collateral are determined through the assessment of credit risk of borrowers or counterparties. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

The main types of collateral obtained are as follows:

— Mortgage loans to retail customers are generally collateralized by mortgages over residential properties;

— Other personal lending and corporate loans and advances are primarily collateralized by charges over land and properties or other assets of the borrowers; and

— Financial assets held under resale agreements transactions are primarily collateralized by debt securities and bills.

The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Loans and advances to customers (i)

The following tables set out the concentration of risk for loans and advances to customers by geographical area and industry.

(1) The composition of loans and advances to customers by geographical area is analyzed as follows:

	As at 31 December			
	2021		2020	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Head Office	**313,248**	**3.1**	350,679	3.9
Yangtze River Delta	**2,383,014**	**23.8**	1,996,025	22.4
Pearl River Delta	**1,325,589**	**13.2**	1,139,535	12.8
Bohai Rim	**1,427,512**	**14.3**	1,302,504	14.6
Central China	**1,477,841**	**14.8**	1,302,925	14.6
Western China	**2,297,775**	**23.0**	2,088,255	23.4
Northeastern China	**367,382**	**3.7**	344,039	3.9
Overseas and Others	**406,823**	**4.1**	393,322	4.4
Subtotal	**9,999,184**	**100.0**	8,917,284	100.0
Personal loans and advances				
Head Office	**47**	**–**	50	–
Yangtze River Delta	**1,705,450**	**23.9**	1,484,067	23.9
Pearl River Delta	**1,514,233**	**21.2**	1,331,142	21.4
Bohai Rim	**1,033,741**	**14.5**	912,175	14.7
Central China	**1,187,096**	**16.6**	997,845	16.0
Western China	**1,451,317**	**20.3**	1,265,565	20.4
Northeastern China	**225,328**	**3.2**	207,899	3.3
Overseas and Others	**19,356**	**0.3**	20,094	0.3
Subtotal	**7,136,568**	**100.0**	6,218,837	100.0
Gross loans and advances to customers	**17,135,752**		15,136,121	

(i) The below information does not include accrued interests of loans and advances to customers.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Loans and advances to customers (i) (Continued)

(2) The composition of loans and advances to customers by industry is analyzed as follows:

	As at 31 December			
	2021		2020	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Transportation, logistics and postal services	**2,145,617**	**21.5**	1,915,191	21.5
Manufacturing	**1,694,879**	**17.0**	1,450,816	16.3
Leasing and commercial services	**1,507,059**	**15.1**	1,261,700	14.1
Production and supply of power, heat, gas and water	**1,054,517**	**10.5**	976,377	11.0
Real estate	**876,407**	**8.8**	798,017	8.9
Water, environment and public utilities management	**719,530**	**7.2**	621,772	7.0
Retail and wholesale	**574,187**	**5.7**	469,831	5.3
Finance	**446,486**	**4.5**	556,342	6.2
Construction	**303,347**	**3.0**	222,858	2.5
Mining	**203,937**	**2.0**	206,502	2.3
Others	**473,218**	**4.7**	437,878	4.9
Subtotal	**9,999,184**	**100.0**	8,917,284	100.0
Personal loans and advances				
Residential mortgage	**5,242,297**	**73.4**	4,662,632	75.0
Personal business	**469,498**	**6.6**	380,305	6.1
Personal consumption	**193,706**	**2.7**	196,859	3.2
Credit cards	**626,783**	**8.8**	542,563	8.7
Others	**604,284**	**8.5**	436,478	7.0
Subtotal	**7,136,568**	**100.0**	6,218,837	100.0
Gross loans and advances to customers	**17,135,752**		15,136,121	

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Loans and advances to customers (i) (Continued)

(3) The composition of loans and advances to customers by contractual maturity and security type is analyzed as follows:

	31 December 2021			
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**
Unsecured loans	**2,307,472**	**860,788**	**1,824,122**	**4,992,382**
Guaranteed loans	**667,336**	**466,119**	**777,262**	**1,910,717**
Loans secured by collateral	**1,279,772**	**587,215**	**6,096,590**	**7,963,577**
Pledged loans	**386,734**	**118,536**	**1,763,806**	**2,269,076**
Total	**4,641,314**	**2,032,658**	**10,461,780**	**17,135,752**

	31 December 2020			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	1,537,763	958,928	1,679,137	4,175,828
Guaranteed loans	619,901	428,989	640,554	1,689,444
Loans secured by collateral	1,062,045	521,244	5,395,327	6,978,616
Pledged loans	623,848	101,553	1,566,832	2,292,233
Total	3,843,557	2,010,714	9,281,850	15,136,121

(4) Past due loans (ii)

	31 December 2021					
	Up to 30 days	**31–90 days**	**91–360 days**	**361 days to 3 years**	**Over 3 years**	**Total**
Unsecured loans	**7,313**	**4,388**	**10,949**	**4,431**	**4,318**	**31,399**
Guaranteed loans	**5,017**	**2,953**	**7,569**	**9,031**	**1,876**	**26,446**
Loans secured by collateral	**30,388**	**21,419**	**29,563**	**22,740**	**7,734**	**111,844**
Pledged loans	**1,922**	**959**	**4,766**	**4,684**	**2,901**	**15,232**
Total	**44,640**	**29,719**	**52,847**	**40,886**	**16,829**	**184,921**

	31 December 2020					
	Up to 30 days	31–90 days	91–360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	5,678	4,645	12,114	2,675	3,526	28,638
Guaranteed loans	10,136	2,890	11,336	9,287	2,020	35,669
Loans secured by collateral	32,138	20,145	33,540	26,513	6,636	118,972
Pledged loans	2,042	554	3,803	5,274	481	12,154
Total	49,994	28,234	60,793	43,749	12,663	195,433

(ii) When either loan principal or interest is past due by one day in any period, the whole loan is classified as overdue loan.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Loans and advances to customers (i) (Continued)

(5) Credit quality of loans and advances to customers

Within the credit-impaired loans and advances, the portions covered and not covered by collaterals held are as follows:

	Year ended 31 December	
	2021	2020
Portion covered	**141,243**	141,492
Portion not covered	**104,539**	95,621
Total	**245,782**	237,113

(6) Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The gross carrying amount of the financial asset is recalculated and the related gain or loss is recognized in profit and loss. The gross carrying amount of the financial asset is determined based on the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after modified, so that the assets are moved from Stage 3 or Stage 2 to Stage 1, and the impairment allowance is measured at an amount equal to the 12-month ECL instead of the lifetime ECL.

Rescheduled loan is a loan which the contractual terms were renegotiated between the Group and borrowers because of deterioration in borrowers' financial position, or the inability to meet borrowers' original repayment schedule. Rescheduled loans and advances of the Group as at 31 December 2021 amounted to RMB18,307 million (31 December 2020: RMB14,546 million).

During the period ended 31 December 2021, as a result of bankruptcy reorganization and equity for debt, the Group recognized ordinary shares upon renegotiation of RMB1,984 million (31 December 2020: RMB1,649 million). The loss associated with these bankruptcy reorganization and equity for debt was not significant.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Debt instruments

Credit quality of debt instruments

(1) Analysis of the expected credit loss stages of debt instrument investments at amortized cost and other debt instruments at fair value through other comprehensive income were disclosed in Notes IV18.2 and 18.3, respectively.

(2) Debt instruments analyzed by credit rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The Group classified the credit risk levels of financial assets measured by ECL into "Low" (credit risk in good condition), "Medium" (increased credit risk), and "High" (credit risk in severe condition), based on the quality of assets. The credit risk level is used for the purpose of the Group's internal credit risk management. "Low" refers to assets with good credit quality. There is no sufficient reason to doubt that the assets are not expected to fulfill its contractual obligation to repay or if there is any other behaviors breaching the debt contracts that would significantly impact the repayment of debt according to contract terms. "Medium" refers to assets facing obvious negative factors impacting its repayment capacity, but not yet have non-repayment behaviors. "High" refers to non-repayment according to the debt contract terms, or other behaviors breaching the debt contracts and having significant impact on the repayment of debt according to contract terms.

The carrying amounts of debt instruments investments at amortized cost and other debt instrument investments at fair value through other comprehensive income analyzed by their credit rating as at the end of the reporting period are as follows (i):

		As at 31 December 2021			
Credit grade	**Notes**	**Low**	**Medium**	**High**	**Total**
Debt securities issued by					
— Governments		**4,807,834**	**–**	**–**	**4,807,834**
— Public sector and quasi-governments		**1,787,588**	**–**	**–**	**1,787,588**
— Financial institutions		**511,253**	**1,218**	**–**	**512,471**
— Corporates	(ii)	**209,339**	**253**	**32**	**209,624**
Special government bond		**94,122**	**–**	**–**	**94,122**
Receivable from the MOF		**324,619**	**–**	**–**	**324,619**
Others		**28,389**	**548**	**18**	**28,955**
Total		**7,763,144**	**2,019**	**50**	**7,765,213**

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(2) Debt instruments analyzed by credit rating (Continued)

		As at 31 December 2020			
Credit grade	Notes	Low	Medium	High	Total
Debt securities issued by					
— Governments		4,288,607	–	–	4,288,607
— Public sector and quasi-governments		1,590,893	–	–	1,590,893
— Financial institutions		658,182	2,580	–	660,762
— Corporates	(ii)	247,717	4,796	66	252,579
Special government bond		94,125	–	–	94,125
Receivable from the MOF		316,656	–	–	316,656
Others		31,500	528	9	32,037
Total		7,227,680	7,904	75	7,235,659

(i) The ratings as at 31 December 2021 and 31 December 2020 were internal ratings obtained from the Group, financial assets at fair value through profit or loss was not included in the credit grade table as at 31 December 2021 and 31 December 2020.

(ii) As at 31 December 2021, the ratings of super short-term commercial papers of the Group amounted to RMB3,634 million (31 December 2020: RMB341 million) included in corporate bonds above are based on issuer rating for this credit risk analysis.

44.2 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in meeting obligations that are settled by delivering cash or another financial asset.

The Group's Assets and Liabilities Management Department manages its liquidity risk through:

— Optimizing asset and liability structure;

— Maintaining stability of deposit base;

— Making projections of future cash flows, and evaluating the appropriate liquid asset position;

— Maintaining an efficient internal funds transfer mechanism within the Group; and

— Performing stress testing on a regular basis.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities

The tables below summarize the maturity analysis of financial assets and financial liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting period:

	31 December 2021								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Cash and balances with central banks	–	175,620	–	944	–	–	–	2,144,842	2,321,406
Deposits with banks and other financial institutions	–	78,385	29,425	41,606	57,200	11,884	–	–	218,500
Placements with and loans to banks and other financial institutions	–	–	181,508	115,957	132,768	14,975	1,736	–	446,944
Derivative financial assets	–	–	4,284	4,770	9,233	3,688	3	–	21,978
Financial assets held under resale agreements	3,872	–	810,227	20,738	2,800	–	–	–	837,637
Loans and advances to customers	16,555	–	661,910	817,875	3,243,507	3,371,483	8,343,173	–	16,454,503
Financial assets at fair value through profit or loss	–	4,721	19,554	11,609	81,376	38,219	175,922	128,840	460,241
Debt instrument investments at amortized cost	394	–	57,670	111,377	593,026	2,740,193	2,869,862	–	6,372,522
Other debt instrument and other equity investments at fair value through other comprehensive income	32	–	36,490	72,014	294,752	611,990	377,413	4,589	1,397,280
Other financial assets	1,836	67,612	309	3,442	959	54	98	3,571	77,881
Total financial assets	22,689	326,338	1,801,377	1,200,332	4,415,621	6,792,486	11,768,207	2,281,842	28,608,892
Borrowings from central banks	–	(32)	(49,889)	(31,806)	(663,870)	(1,616)	–	–	(747,213)
Deposits from banks and other financial institutions	–	(1,105,856)	(28,658)	(139,121)	(139,143)	(209,588)	–	–	(1,622,366)
Placements from banks and other financial institutions	–	–	(106,957)	(92,770)	(80,218)	(6,394)	(4,766)	–	(291,105)
Financial liabilities at fair value through profit or loss	–	(15,646)	–	–	–	–	(214)	–	(15,860)
Derivative financial liabilities	–	–	(3,918)	(4,255)	(7,643)	(3,305)	(216)	–	(19,337)
Financial assets sold under repurchase agreements	–	–	(18,841)	(6,877)	(9,156)	(1,159)	–	–	(36,033)
Due to customers	–	(12,386,137)	(603,855)	(1,303,745)	(3,209,263)	(4,388,038)	(16,089)	–	(21,907,127)
Debt securities issued	–	–	(84,856)	(277,220)	(723,814)	(126,768)	(294,999)	–	(1,507,657)
Other financial liabilities	–	(187,376)	(4,484)	(7,810)	(11,122)	(42,500)	(63,212)	(2,039)	(318,543)
Total financial liabilities	–	(13,695,047)	(901,458)	(1,863,604)	(4,844,229)	(4,779,368)	(379,496)	(2,039)	(26,465,241)
Net position	22,689	(13,368,709)	899,919	(663,272)	(428,608)	2,013,118	11,388,711	2,279,803	2,143,651

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (Continued)

The tables below summarize the maturity analysis of financial assets and financial liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting period: (Continued)

	31 December 2020								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Cash and balances with central banks	–	116,773	11,869	4,322	12,653	–	–	2,291,658	2,437,275
Deposits with banks and other financial institutions	–	86,976	17,494	57,867	258,811	13,037	–	–	434,185
Placements with and loans to banks and other financial institutions	17	–	209,386	155,901	151,016	29,328	1,300	–	546,948
Derivative financial assets	–	–	9,931	14,614	34,987	2,375	30	–	61,937
Financial assets held under resale agreements	3,689	–	755,438	33,315	23,764	–	–	–	816,206
Loans and advances to customers	20,062	–	543,994	812,515	3,009,584	2,858,842	7,307,436	–	14,552,433
Financial assets at fair value through profit or loss	5	11,416	40,928	61,053	138,374	107,775	100,896	122,622	583,069
Debt instrument investments at amortized cost	5	–	48,499	100,327	471,210	2,721,956	2,342,223	–	5,684,220
Other debt instrument and other equity investments at fair value through other comprehensive income	–	–	39,377	44,870	352,924	723,392	390,876	3,931	1,555,370
Other financial assets	3,070	91,657	1,220	798	1,821	125	87	2,784	101,562
Total financial assets	26,848	306,822	1,678,136	1,285,582	4,455,144	6,456,830	10,142,848	2,420,995	26,773,205
Borrowings from central banks	–	(30)	(57,653)	(44,542)	(634,135)	(801)	–	–	(737,161)
Deposits from banks and other financial institutions	–	(930,759)	(81,439)	(126,179)	(38,640)	(217,499)	–	–	(1,394,516)
Placements from banks and other financial institutions	–	–	(187,137)	(104,911)	(88,924)	(2,391)	(7,297)	–	(390,660)
Financial liabilities at fair value through profit or loss	–	(13,725)	(9,540)	–	(100)	(230)	–	(4,222)	(27,817)
Derivative financial liabilities	–	–	(8,719)	(11,101)	(39,995)	(4,411)	(1,056)	–	(65,282)
Financial assets sold under repurchase agreements	–	–	(84,786)	(6,920)	(16,977)	(512)	–	–	(109,195)
Due to customers	–	(11,921,912)	(554,505)	(1,256,439)	(2,955,410)	(3,672,501)	(12,134)	–	(20,372,901)
Debt securities issued	–	–	(113,725)	(360,635)	(456,191)	(88,196)	(353,098)	–	(1,371,845)
Other financial liabilities	–	(241,413)	(1,562)	(2,318)	(9,317)	(27,304)	(63,012)	(5,540)	(350,466)
Total financial liabilities	–	(13,107,839)	(1,099,066)	(1,913,045)	(4,239,689)	(4,013,845)	(436,597)	(9,762)	(24,819,843)
Net position	26,848	(12,801,017)	579,070	(627,463)	215,455	2,442,985	9,706,251	2,411,233	1,953,362

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows

Assets available to meet obligations related to the Group's liabilities and outstanding credit commitments primarily include cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets at fair value through profit or loss, and financial assets held under resale agreements. In the normal course of business, the majority of customer deposits repayable on demand or on maturity are expected to be retained. In addition, the Group is able to sell the other debt instrument and other equity investments at fair value through other comprehensive income to repay matured liabilities, if necessary.

The tables below present the undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

	31 December 2021								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	–	175,620	–	944	–	–	–	2,144,842	2,321,406
Deposits with banks and other financial institutions	–	79,506	29,581	42,282	57,883	12,424	–	–	221,676
Placements with and loans to banks and other financial institutions	–	–	183,457	118,102	134,679	16,303	1,840	–	454,381
Financial assets held under resale agreements	3,915	–	813,408	20,849	2,826	–	–	–	840,998
Loans and advances to customers	66,076	–	733,902	981,574	3,956,763	5,475,868	12,476,078	–	23,690,261
Financial assets at fair value through profit or loss	–	4,721	19,856	12,128	88,156	64,095	196,609	128,840	514,405
Debt instrument investments at amortized cost	1,269	–	58,718	118,783	706,909	3,315,201	3,548,575	–	7,749,455
Other debt instrument and other equity investments at fair value through other comprehensive income	119	–	36,686	73,474	316,861	691,188	435,749	4,589	1,558,666
Other financial assets	3,821	70,332	362	3,456	992	55	98	3,617	82,733
Total non-derivative financial assets	75,200	330,179	1,875,970	1,371,592	5,265,069	9,575,134	16,658,949	2,281,888	37,433,981
Non-derivative financial liabilities									
Borrowings from central banks	–	(32)	(49,991)	(32,020)	(678,145)	(1,597)	–	–	(761,785)
Deposits from banks and other financial institutions	–	(1,105,856)	(29,446)	(140,548)	(146,482)	(229,627)	–	–	(1,651,959)
Placements from banks and other financial institutions	–	–	(106,990)	(93,027)	(80,847)	(7,283)	(4,967)	–	(293,114)
Financial liabilities at fair value through profit or loss	–	(15,646)	–	–	–	–	(214)	–	(15,860)
Financial assets sold under repurchase agreements	–	–	(18,848)	(6,898)	(9,172)	(1,162)	–	–	(36,080)
Due to customers	–	(12,386,137)	(604,386)	(1,308,635)	(3,255,950)	(4,683,792)	(19,066)	–	(22,257,966)
Debt securities issued	–	–	(84,971)	(278,957)	(740,163)	(182,848)	(331,012)	–	(1,617,951)
Other financial liabilities	–	(187,376)	(4,553)	(7,854)	(11,313)	(43,000)	(63,288)	(2,039)	(319,423)
Total non-derivative financial liabilities	–	(13,695,047)	(899,185)	(1,867,939)	(4,922,072)	(5,149,309)	(418,547)	(2,039)	(26,954,138)
Net position	75,200	(13,364,868)	976,785	(496,347)	342,997	4,425,825	16,240,402	2,279,849	10,479,843

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows (Continued)

The tables below present the undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period: (Continued)

	31 December 2020								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	–	116,773	11,869	4,322	12,653	–	–	2,291,658	2,437,275
Deposits with banks and other financial institutions	–	86,976	17,515	58,080	263,326	14,419	–	–	440,316
Placements with and loans to banks and other financial institutions	17	–	211,242	158,751	154,809	30,258	1,308	–	556,385
Financial assets held under resale agreements	3,689	–	758,771	33,440	23,928	–	–	–	819,828
Loans and advances to customers	82,234	–	615,894	949,240	3,596,570	4,669,491	11,070,548	–	20,983,977
Financial assets at fair value through profit or loss	5	11,416	41,369	62,296	147,124	134,878	124,902	126,481	648,471
Debt instrument investments at amortized cost	443	–	63,769	128,789	595,532	3,187,505	2,887,451	–	6,863,489
Other debt instrument and other equity investments at fair value through other comprehensive income	–	–	41,424	49,589	384,091	798,307	442,817	2,784	1,719,012
Other financial assets	–	91,657	1,220	798	1,821	125	87	2,784	98,492
Total non-derivative financial assets	86,388	306,822	1,763,073	1,445,305	5,179,854	8,834,983	14,527,113	2,423,707	34,567,245
Non-derivative financial liabilities									
Borrowings from central banks	–	(30)	(57,653)	(44,848)	(647,586)	(790)	–	–	(750,907)
Deposits from banks and other financial institutions	–	(930,759)	(81,706)	(126,901)	(42,211)	(235,630)	–	–	(1,417,207)
Placements from banks and other financial institutions	–	–	(187,271)	(105,240)	(89,826)	(3,444)	(7,850)	–	(393,631)
Financial liabilities at fair value through profit or loss	–	(13,725)	(9,543)	–	(100)	(230)	–	(4,222)	(27,820)
Financial assets sold under repurchase agreements	–	–	(87,891)	(6,929)	(17,032)	(516)	–	–	(112,368)
Due to customers	–	(11,922,145)	(555,122)	(1,261,386)	(2,998,626)	(3,939,672)	(14,692)	–	(20,691,643)
Debt securities issued	–	–	(113,895)	(364,892)	(478,222)	(163,736)	(398,939)	–	(1,519,684)
Other financial liabilities	–	(241,177)	(1,562)	(2,321)	(9,368)	(27,800)	(63,212)	(5,540)	(350,980)
Total non-derivative financial liabilities	–	(13,107,836)	(1,094,643)	(1,912,517)	(4,282,971)	(4,371,818)	(484,693)	(9,762)	(25,264,240)
Net position	86,388	(12,801,014)	668,430	(467,212)	896,883	4,463,165	14,042,420	2,413,945	9,303,005

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Derivative cash flows

Derivatives settled on a net basis

The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

	31 December 2021					
	Less than 1 month	**1–3 months**	**3–12 months**	**1–5 years**	**Over 5 years**	**Total**
Derivatives on a net basis	**650**	**512**	**448**	**(101)**	**–**	**1,509**

	31 December 2020					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Derivatives on a net basis	(18)	(120)	(39)	(2,203)	(1,018)	(3,398)

Derivatives settled on a gross basis

The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

	31 December 2021					
	Less than 1 month	**1–3 months**	**3–12 months**	**1–5 years**	**Over 5 years**	**Total**
Derivatives settled on a gross basis						
— Cash inflow	**356,369**	**441,786**	**354,719**	**88,158**	**751**	**1,241,783**
— Cash outflow	**(352,649)**	**(439,862)**	**(353,358)**	**(68,759)**	**(1,000)**	**(1,215,628)**
Total	**3,720**	**1,924**	**1,361**	**19,399**	**(249)**	**26,155**

	31 December 2020					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Derivatives settled on a gross basis						
— Cash inflow	529,178	530,154	1,540,225	51,085	–	2,650,642
— Cash outflow	(527,974)	(526,854)	(1,545,117)	(50,938)	–	(2,650,883)
Total	1,204	3,300	(4,892)	147	–	(241)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Off-balance sheet items

The off-balance sheet items primarily include loan commitments, bank acceptances, credit card commitments, guarantees and letters of guarantee and letters of credit. The tables below summarize the amounts of credit commitments by remaining maturity. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date.

	31 December 2021			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	85,271	177,371	197,258	459,900
Bank acceptances	414,934	–	–	414,934
Credit card commitments	743,594	–	–	743,594
Guarantee and letters of guarantee	153,029	135,151	16,058	304,238
Letters of credit	162,515	2,738	386	165,639
Total	**1,559,343**	**315,260**	**213,702**	**2,088,305**

	31 December 2020			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	277,152	387,315	952,811	1,617,278
Bank acceptances	429,841	–	–	429,841
Credit card commitments	695,183	–	–	695,183
Guarantee and letters of guarantee	135,533	118,620	10,493	264,646
Letters of credit	157,942	4,414	–	162,356
Total	1,695,651	510,349	963,304	3,169,304

44.3 Market risk

Market risk represents the potential loss arising from changes in market rates of interest and foreign exchange, as well as commodity and equity prices. Market risk arises from both the Group's proprietary positions and customer driven transactions, in both cases related to on-and off-balance sheet activities.

The Group is primarily exposed to interest rate risk through corporate, personal banking and treasury operations. Interest rate risk is inherent in many of the Group's businesses and this situation is common among large banks. It fundamentally arises through mismatches between the maturity and re-pricing dates of interest-earning assets and interest-bearing liabilities.

Foreign exchange rate risk is the potential loss related to changes in foreign exchange rates affecting the translation of foreign currency denominated monetary assets and liabilities. The risk of loss results from movements in foreign currency exchange rates.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

The Group is also exposed to commodity risk, primarily related to gold and other precious metals. The risk of loss results from movements in commodity price. The Group manages the risk related to gold price together with foreign exchange rate risk.

The Group has determined that the levels of market risk related to changes in equity prices and commodity prices other than gold, with respect to the related exposures in its trading and investment portfolios, are immaterial.

Segregation of Trading Book and Banking Book

To enhance the effectiveness of market risk management, as well as the accuracy of determining the levels of regulatory capital required related to market risk, the Group segregates assets and liabilities, both on-and off-balance sheet, into either the trading book or banking book. The trading book is comprised of financial instruments and commodity positions held for trading or risk hedging. Any other positions are included in the banking book.

Market Risk Management for Trading Book

The Group manages market risk in the trading book through methodologies that include Value at Risk (VaR), monitoring and management of established limits, sensitivity analysis, duration analysis, exposure analysis and stress testing.

Based on changes in the external market and business operations, the Group formulates annual treasury trading, investment business and market risk management policies, and further clarifies the basic policies to be followed for bond trading and derivatives trading, as well as risk control requirements such as exposure and duration. The limit indicator system with VaR as the core, and the market risk management system is used to realize the measurement and monitoring of market risk in the trading book.

The Bank has adopted an historical simulation method, with a confidence level of 99% based on holding period of 1 day and historical data for 250 days to calculate the VaR of the trading book, which includes the Head Office, domestic branches and overseas branches. Based on the differences between domestic and overseas markets, the Bank selected applicable parameters for model and risk factors in order to reflect the actual market risk levels. The Bank verified the accuracy and reliability of market risk measurements through data analysis, parallel modeling and back-testing of the market risk measurements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Market Risk Management for Trading Book (Continued)

VaR Analysis for the Trading Book

Bank

	Note	2021			
		At the end of the year	**Average**	**Maximum**	**Minimum**
Interest rate risk		**53**	**67**	**99**	**36**
Exchange rate risk	(1)	**149**	**190**	**289**	**35**
Commodity risk		**44**	**83**	**136**	**21**
Overall VaR		**150**	**210**	**307**	**87**

Bank

		2020			
		At the end of the year	Average	Maximum	Minimum
Interest rate risk		59	88	164	52
Exchange rate risk	(1)	28	165	213	28
Commodity risk		62	75	120	9
Overall VaR		87	232	362	87

The Bank calculates VaR for its trading book (excluding RMB foreign currency settlement contracts with customers under relevant regulations). The Bank conducts stress testing for its trading book quarterly. The specific areas subject to this testing include the major areas of exposure, such as bonds, interest rate derivatives, foreign exchange derivatives and precious metal. The stress testing uses a range of scenarios, to assess the potential impact on profit and loss.

(1) VaR related to gold is recognized as a component of foreign exchange rate risk.

Market Risk Management for Banking Book

The Group manages market risk related to the banking book by consistently applying techniques across the Group that include exposure limit management, stress testing, scenario analysis and gap analysis.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Market Risk Management for Banking Book (Continued)

Interest Rate Risk Management

Interest rate risk refers to the risk that the adverse changes in interest rate levels and maturity structures will cause the Bank's book value to suffer losses. The Bank's book interest rate risk mainly comes from the mismatch of maturity or repricing periods of interest-sensitive assets and liabilities in the Bank's book and the inconsistent changes in the benchmark interest rate on which assets and liabilities are based.

Since the People's Bank of China's LPR reform, the Bank has implemented relevant policies in accordance with regulatory requirements, promoted business system transformation, modified system loan contracts, improved internal and external interest rate pricing mechanisms, strengthened staff training for branches, comprehensively promoted LPR applications, and basically realized the entire system. The entire process of loan pricing applies LPR pricing. After the People's Bank of China reforms LPR, the connection between the benchmark interest rate on loans and the market interest rate will be closer, and the frequency and amplitude of volatility will increase relatively. To this end, the Bank strengthened the monitoring and prejudgment of the external interest rate environment, adjusted internal and external pricing strategies in a timely manner, optimized the asset and liability product structure and maturity structure, and proactively adjusted the risk structure to reduce the economic value and overall impact of interest rate changes. The adverse impact of earnings. During the reporting period, the Bank's interest rate risk level was generally stable, and all quota indicators were controlled within the scope of regulatory requirements and management objectives.

Foreign Exchange Rate Risk Management

Foreign exchange rate risk relates to the mismatch of foreign currency denominated monetary assets and liabilities, and the potential loss related to changes in foreign exchange rates, which largely arises through operational activities.

The Group performs monitoring and sensitivity analysis of foreign exchange rate risk exposure, manages the mismatch of foreign currency denominated assets and liabilities to effectively manage foreign exchange rate risk exposure within acceptable limits.

Market Risk Exposure Limit Management

Market risk exposure limits are classified as either directive limits or indicative limits, based on the type of effectiveness, including position limits, stop-loss limits, VaR limits, and stress testing limits.

The Group is committed to continuous improvement of its market risk exposure limit management. The Group establishes exposure limits reflecting its risk appetite and continuously refines the categorization of market risk exposure limits. Further, it regularly monitors, reports, refines, and implements improvements to the market risk exposure limit process.

Foreign exchange rate risk

The Group primarily conducts its business activities in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows:

	31 December 2021				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,241,015	61,233	1,142	18,016	2,321,406
Deposits with banks and other financial institutions	148,782	49,451	2,561	17,706	218,500
Placements with and loans to banks and other financial institutions	152,884	218,378	43,509	32,173	446,944
Derivative financial assets	18,053	1,175	1,805	945	21,978
Financial assets held under resale agreements	837,637	–	–	–	837,637
Loans and advances to customers	15,985,155	344,323	60,014	65,011	16,454,503
Financial assets at fair value through profit or loss	446,980	10,933	677	1,651	460,241
Debt instrument investments at amortized cost	6,307,943	49,929	9,991	4,659	6,372,522
Other debt instrument and other equity investments at fair value through other comprehensive income	1,151,033	197,730	2,756	45,761	1,397,280
Other financial assets	69,258	5,315	2,528	780	77,881
Total financial assets	27,358,740	938,467	124,983	186,702	28,608,892
Borrowings from central banks	(745,597)	–	–	(1,616)	(747,213)
Deposits from banks and other financial institutions	(1,572,836)	(17,571)	(24,877)	(7,082)	(1,622,366)
Placements from banks and other financial institutions	(67,315)	(178,291)	(26,842)	(18,657)	(291,105)
Financial liabilities at fair value through profit or loss	(15,860)	–	–	–	(15,860)
Derivative financial liabilities	(14,397)	(2,290)	(2,164)	(486)	(19,337)
Financial assets sold under repurchase agreements	(20,302)	(9,950)	–	(5,781)	(36,033)
Due to customers	(21,373,264)	(459,099)	(32,650)	(42,114)	(21,907,127)
Debt securities issued	(1,175,836)	(229,994)	(36,114)	(65,713)	(1,507,657)
Other financial liabilities	(294,746)	(19,984)	(1,508)	(2,305)	(318,543)
Total financial liabilities	(25,280,153)	(917,179)	(124,155)	(143,754)	(26,465,241)
Net on-balance sheet position	2,078,587	21,288	828	42,948	2,143,651
Net notional amount of derivatives	154,772	8,789	23,045	(35,288)	151,318
Loan commitments and financial guarantee contracts	1,799,496	245,491	10,216	33,102	2,088,305

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows: (Continued)

	31 December 2020				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,365,609	54,151	1,296	16,219	2,437,275
Deposits with banks and other financial institutions	363,597	50,938	2,393	17,257	434,185
Placements with and loans to banks and other financial institutions	293,880	185,248	38,894	28,926	546,948
Derivative financial assets	56,666	1,084	45	4,142	61,937
Financial assets held under resale agreements	816,206	–	–	–	816,206
Loans and advances to customers	14,076,068	351,117	52,231	73,017	14,552,433
Financial assets at fair value through profit or loss	552,067	11,165	6,856	12,981	583,069
Debt instrument investments at amortized cost	5,617,868	58,301	4,271	3,780	5,684,220
Other debt instrument and other equity investments at fair value through other comprehensive income	1,309,570	206,292	2,518	36,990	1,555,370
Other financial assets	84,200	10,622	3,415	3,325	101,562
Total financial assets	25,535,731	928,918	111,919	196,637	26,773,205
Borrowings from central banks	(735,900)	–	–	(1,261)	(737,161)
Deposits from banks and other financial institutions	(1,336,474)	(26,379)	(20,775)	(10,888)	(1,394,516)
Placements from banks and other financial institutions	(136,469)	(200,492)	(32,327)	(21,372)	(390,660)
Financial liabilities at fair value through profit or loss	(27,817)	–	–	–	(27,817)
Derivative financial liabilities	(4,367)	(60,268)	(257)	(390)	(65,282)
Financial assets sold under repurchase agreements	(83,009)	(18,995)	–	(7,191)	(109,195)
Due to customers	(19,873,361)	(430,007)	(33,570)	(35,963)	(20,372,901)
Debt securities issued	(1,065,150)	(216,330)	(26,198)	(64,167)	(1,371,845)
Other financial liabilities	(310,910)	(32,108)	(2,399)	(5,049)	(350,466)
Total financial liabilities	(23,573,457)	(984,579)	(115,526)	(146,281)	(24,819,843)
Net on–balance sheet position	1,962,274	(55,661)	(3,607)	50,356	1,953,362
Net notional amount of derivatives	138,397	34,139	19,124	(30,638)	161,022
Loan commitments and financial guarantee contracts	2,893,041	236,335	7,914	32,014	3,169,304

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

The table below indicates the potential effect on profit before tax and other comprehensive income arising from a 5% appreciation or depreciation of RMB spot and forward foreign exchange rates against a basket of all other currencies on the net positions of foreign currency monetary assets and liabilities and derivative instruments in the consolidated statement of financial position.

	31 December 2021		31 December 2020	
RMB	**Profit before tax**	**Other comprehensive income**	Profit before tax	Other comprehensive income
5% appreciation	**(3,317)**	**186**	(2,433)	(462)
5% depreciation	**3,317**	**(186)**	2,433	462

The effect on profit before tax and other comprehensive income is calculated based on the assumption that the Group's foreign currency sensitive exposures and foreign currency derivative instruments net position at the end of each reporting period remain unchanged. The Group mitigates its foreign exchange rate risk through active management of its foreign currency exposures and the appropriate use of derivative instruments, based on management expectation of future foreign currency exchange rate movements. Such analysis does not take into account the correlation effect of changes in different foreign currencies, nor any further actions that could be taken by management to mitigate the effect of foreign exchange differences. Therefore, the sensitivity analysis above may differ from actual results occurring through changes in foreign exchange rates.

Interest rate risk

The Group's interest rate risk arises from the mismatches between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities, as well as the inconsistent variations in the benchmark interest rate on which the assets and liabilities are based. The Group's interest-generating assets and interest-bearing liabilities are primarily denominated in RMB. The PBOC stipulated the benchmark interest rate for RMB deposits. The deposit interest rate floating ceiling was removed by the PBOC with effect from 24 December 2015 for commercial banks. Since 16 August 2019, the PBOC established RMB Loan Prime Rate to replace RMB benchmark interest rates for loan as a pricing benchmark of new loan whereby financial institutions are in a position to price their loans based on credit risk, commercial and market factors.

The Group manages its interest rate risk by:

— Strengthen the pre-judgment of the situation and analyze the macroeconomic factors that may affect the LPR interest rate, the benchmark deposit interest rate and the market interest rate;

— Strengthen strategy transmission and optimize the repricing term structure of interest-earning assets and interest-bearing liabilities;

— Implement limit management to control the impact of interest rate changes on the economic value and overall income of bank books within the limits.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Interest rate risk (Continued)

The tables below summarize the contractual maturity or re-pricing date, whichever is earlier, of the Group's financial assets and liabilities at the end of each reporting period.

	31 December 2021						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,032,222	–	–	–	–	289,184	2,321,406
Deposits with banks and other financial institutions	102,908	41,099	56,447	11,503	–	6,543	218,500
Placements with and loans to banks and other financial institutions	182,417	116,368	132,215	14,866	–	1,078	446,944
Derivative financial assets	–	–	–	–	–	21,978	21,978
Financial assets held under resale agreements	809,716	20,666	2,786	–	–	4,469	837,637
Loans and advances to customers	4,316,155	2,451,794	8,483,615	709,928	453,690	39,321	16,454,503
Financial assets at fair value through profit or loss	18,736	16,130	84,068	32,078	156,612	152,617	460,241
Debt instrument investments at amortized cost	57,004	104,328	543,312	2,676,021	2,869,265	122,592	6,372,522
Other debt instrument and other equity investments at fair value through other comprehensive income	64,522	96,496	277,788	566,997	372,294	19,183	1,397,280
Other financial assets	–	–	–	–	–	77,881	77,881
Total financial assets	7,583,680	2,846,881	9,580,231	4,011,393	3,851,861	734,846	28,608,892
Borrowings from central banks	(48,518)	(31,000)	(659,796)	(1,263)	–	(6,636)	(747,213)
Deposits from banks and other financial institutions	(1,127,742)	(138,506)	(138,393)	(205,554)	–	(12,171)	(1,622,366)
Placements from banks and other financial institutions	(106,779)	(99,692)	(78,797)	(3,046)	(1,295)	(1,496)	(291,105)
Financial liabilities at fair value through profit or loss	–	–	–	–	(214)	(15,646)	(15,860)
Derivative financial liabilities	–	–	–	–	–	(19,337)	(19,337)
Financial assets sold under repurchase agreements	(18,838)	(6,871)	(9,147)	(1,157)	–	(20)	(36,033)
Due to customers	(12,926,703)	(1,254,524)	(3,120,029)	(4,240,028)	(16,046)	(349,797)	(21,907,127)
Debt securities issued	(94,101)	(294,188)	(701,558)	(114,560)	(294,999)	(8,251)	(1,507,657)
Other financial liabilities	–	–	–	–	–	(318,543)	(318,543)
Total financial liabilities	(14,322,681)	(1,824,781)	(4,707,720)	(4,565,608)	(312,554)	(731,897)	(26,465,241)
Interest rate gap	(6,739,001)	1,022,100	4,872,511	(554,215)	3,539,307	2,949	2,143,651

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Interest rate risk (Continued)

The tables below summarize the contractual maturity or re-pricing date, whichever is earlier, of the Group's financial assets and liabilities at the end of each reporting period. (Continued)

	31 December 2020						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,158,126	3,294	12,653	–	–	263,202	2,437,275
Deposits with banks and other financial institutions	99,175	57,083	256,632	13,037	–	8,258	434,185
Placements with and loans to banks and other financial institutions	210,779	156,519	149,070	28,830	–	1,750	546,948
Derivative financial assets	–	–	–	–	–	61,937	61,937
Financial assets held under resale agreements	755,068	33,616	22,967	–	–	4,555	816,206
Loans and advances to customers	4,117,253	2,171,094	7,121,297	619,431	489,037	34,321	14,552,433
Financial assets at fair value through profit or loss	40,569	68,013	142,140	100,054	93,128	139,165	583,069
Debt instrument investments at amortized cost	63,386	119,236	463,453	2,617,463	2,310,470	110,212	5,684,220
Other debt instrument and other equity investments at fair value through other comprehensive income	78,608	83,737	343,781	648,946	380,632	19,666	1,555,370
Other financial assets	–	–	–	–	–	101,562	101,562
Total financial assets	7,522,964	2,692,592	8,511,993	4,027,761	3,273,267	744,628	26,773,205
Borrowings from central banks	(55,900)	(43,676)	(629,737)	(803)	–	(7,045)	(737,161)
Deposits from banks and other financial institutions	(1,009,086)	(123,822)	(33,266)	(213,122)	–	(15,220)	(1,394,516)
Placements from banks and other financial institutions	(187,801)	(109,893)	(90,775)	–	(1,199)	(992)	(390,660)
Financial liabilities at fair value through profit or loss	(9,532)	–	(100)	(230)	–	(17,955)	(27,817)
Derivative financial liabilities	–	–	–	–	–	(65,282)	(65,282)
Financial assets sold under repurchase agreements	(84,777)	(6,914)	(16,966)	(512)	–	(26)	(109,195)
Due to customers	(12,399,566)	(1,216,463)	(2,875,560)	(3,555,434)	(12,129)	(313,749)	(20,372,901)
Debt securities issued	(137,270)	(373,181)	(444,048)	(63,081)	(344,953)	(9,312)	(1,371,845)
Other financial liabilities	–	–	–	–	–	(350,466)	(350,466)
Total financial liabilities	(13,883,932)	(1,873,949)	(4,090,452)	(3,833,182)	(358,281)	(780,047)	(24,819,843)
Interest rate gap	(6,360,968)	818,643	4,421,541	194,579	2,914,986	(35,419)	1,953,362

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Interest rate risk (Continued)

The following table illustrates the potential pre-tax impact, of a parallel upward or downward shift of 100 basis points in relevant interest rate curves on the Group's net Interest Income and other comprehensive income for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparalleled yield curve movements.

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration.

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as other debt instrument and other equity investments at fair value through other comprehensive held, whose fair value changes are recorded as an element of other comprehensive income.

	31 December 2021		31 December 2020	
	Net interest income	**Other comprehensive income**	Net interest income	Other comprehensive income
+100 basis points	**(37,792)**	**(39,264)**	(37,556)	(67,941)
- 100 basis points	**37,792**	**39,264**	37,556	67,941

The assumptions do not reflect actions that might be taken under the Group's capital and interest rate risk management policy to mitigate changes to the Group's interest rate risk. Therefore the above analysis may differ from the actual situation.

In addition, the presentation of interest rate sensitivity above is for illustration purposes only, showing the potential impact on net interest income and other comprehensive income of the Group under different parallel yield curve movements, relative to their position at period-end, excluding the derivative positions.

44.4 Country Risk

Country risk represents the risk due to changes and incidents occurred in the economy, politics and society of a specific country or region, which results in the borrowers or debtors in that country or region incapable of or unwilling to pay their debts owed to the Bank or otherwise leads to business losses or other losses to the Bank in that country or region.

According to the regulatory requirements of CBIRC, the Group managed country risk through tools and approaches such as country risk rating, limit approval, exposure analysis and stress testing. In the meanwhile, we fully considered the impact of country risk on asset quality, accurately identified, reasonably assessed and prudently estimated the asset loss that may be caused by country risk. Corresponding provisions were also made for country risk impairment.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.5 Insurance risk

The Group engages in its insurance business primarily in Chinese mainland. Insurance risk refers to the financial impact resulting from the unexpected occurrence of insured events. These risks are actively managed by the Group through effective sales management, underwriting control, reinsurance management and claim management. Through effective sales management, the risk of mis-selling could be reduced and the accuracy of information used for underwriting is improved. Through underwriting control, risk of adverse selection could be reduced and moreover differential pricing policy based on the level of each kind of risk could be utilized. Through reinsurance, the Group's insurance capacity could be enhanced and targeted risks could be mitigated. Effective claims management is designed to ensure that insurance payments are controlled according to established criteria.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. The Group conducts experience analysis of mortality rate and surrender rate, in order to improve its risk assessment and as a basis for reasonable estimates.

45 CAPITAL MANAGEMENT

The Group's capital management objectives are as follows:

— maintain an adequate capital base to support the development of its business;

— support the Group's financial stability and profitable growth;

— allocate capital through an efficient and risk based approach to optimize risk-adjusted return to shareholders; and

— safeguard the long-term sustainability of the Group's franchise so that it can continue to provide sufficient shareholder returns and benefits for other stakeholders.

The "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC in 2012 includes, among other things, requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

— minimum regulatory requirements for Common Equity Tier-one Capital Adequacy Ratio, Tier-one Capital Adequacy Ratio and Capital Adequacy Ratio are 5%, 6% and 8%, respectively;

— capital conservation buffer requires additional 2.5% of Common Equity Tier-one Capital Adequacy Ratio;

— additional capital surcharge for systemically important banks requires additional 1% of Common Equity Tier-one Capital Adequacy Ratio;

— should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 CAPITAL MANAGEMENT (Continued)

In April 2014, the CBIRC officially approved the Group to adopt advanced capital management approach. Within the scope of the approval, the Internal Ratings-Based approach is adopted to Credit Risk-weighted Assets for both retail and non-retail risk exposures, and the Standardized approach for both Operational Risk-weighted Assets and Market Risk-weighted Assets. The CBIRC will determine the parallel run period for the Group, which should last for at least three years. During the parallel run period, the Group should calculate its Capital Adequacy Ratios under the advanced approach and the non-advanced approach, and should conform to the capital floor requirements as stipulated in the "Capital Rules for Commercial Banks (Provisional)".

In January 2017, the CBIRC has officially approved the Group to adopt the Internal Models approach to measure its Market Risk-weighted Assets for qualified risk exposures.

Capital adequacy and the utilization of regulatory capital are closely monitored by the Group's management in accordance with the guidelines developed by the Basel Committee and relevant regulations promulgated by the CBIRC. Required information related to capital levels and utilization is filed quarterly with the CBIRC.

The Group's capital adequacy ratio calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC as at the end of the reporting period is as follows:

	Notes	**31 December 2021**	31 December 2020
Common Equity Tier-one Capital Adequacy Ratio	(1)	**11.44%**	11.04%
Tier-one Capital Adequacy Ratio	(1)	**13.46%**	12.92%
Capital Adequacy Ratio	(1)	**17.13%**	16.59%
Common Equity Tier-one Capital	(2)	**2,053,737**	1,884,392
Deductible Items from Common Equity Tier-one Capital	(3)	**(11,257)**	(9,020)
Net Common Equity Tier-one Capital		**2,042,480**	1,875,372
Additional Tier-one Capital	(4)	**359,881**	319,884
Net Tier-one Capital		**2,402,361**	2,195,256
Tier-two Capital	(5)	**655,506**	622,668
Net Capital		**3,057,867**	2,817,924
Risk-weighted Assets	(6)	**17,849,566**	16,989,668

Pursuant to the "Capital Rules for Commercial Banks (Provisional)":

(1) The scope of consolidation related to the calculation of the Group's Capital Adequacy Ratios includes Domestic Institutions, Overseas Institutions and affiliated financial subsidiaries specified in the Regulation.

The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 CAPITAL MANAGEMENT (Continued)

(2) The Group's Common Equity Tier-one Capital includes: ordinary share capital, capital reserve (subject to regulatory limitations), investment revaluation reserve, surplus reserve, general reserve, retained earnings, non-controlling interests (to the extent permitted in the Common Equity Tier-one Capital under the Regulation), and the foreign currency translation reserve.

(3) The Group's Deductible Items from Common Equity Tier-one Capital include: other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.

(4) The Group's Additional Tier-one Capital includes: preference shares issued and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).

(5) The Group's Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).

(6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

46 FAIR VALUE OF FINANCIAL INSTRUMENTS

The majority of the Group's assets and liabilities in the consolidated statement of financial position are financial assets and financial liabilities. Fair value measurement of non-financial assets and non-financial liabilities do not have a material impact on the Group's financial position and operations, taken as a whole.

The Group does not have any financial assets or financial liabilities subject to non-recurring fair value measurements for the years ended 31 December 2021 and 31 December 2020.

46.1 Valuation technique, input and process

The fair value of the Group's financial assets and financial liabilities are determined as follows:

— If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively;

— If not traded in active markets, fair values of financial assets and financial liabilities are determined by using valuation techniques. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models.

The Group has established an independent valuation process for financial assets and financial liabilities. The Financial Accounting Department of head office establishes the valuation models for financial assets and financial liabilities of head office and its branches in China and independently implements the valuation on a regular basis; and the Risk Management Department is responsible for validating the valuation model, the Operations Departments records the accounting for these items. Overseas branches and sub-branches designate departments or personnel that are independent from the front trading office to perform valuation in accordance with the local regulatory requirements and their own department settings.

The board of directors shall be responsible for establishing and improving the internal control system related to the valuation of financial instruments and approving valuation policies.

For the year ended 31 December 2021 and 31 December 2020, there was no significant changes in the valuation techniques or inputs used to determine fair value measurements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.2 Fair value hierarchy

The level in which fair value measurement is categorized is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: fair value measurements are not based on observable market data.

46.3 Financial assets and financial liabilities not measured at fair value on the consolidated statement of financial position

The tables below summarize the carrying amounts and fair values of those financial assets and financial liabilities not measured in the consolidated statement of financial position at their fair value. Financial assets and financial liabilities for which the carrying amounts approximate fair value, such as balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, receivable from the MOF, special government bond, borrowings from central banks, deposits and placements from banks and other financial institutions, due to customers, financial assets sold under repurchase agreements and certificates of deposit issued, interbank certificate of deposits issued and commercial papers issued are not included in the tables below.

	31 December 2021				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Debt instrument investments at amortized cost (excluding receivable from the MOF and special government bond)	**5,953,781**	**6,107,442**	**32,976**	**5,961,771**	**112,695**
Financial liabilities					
Bonds issued	**428,856**	**435,680**	**47,865**	**387,815**	**—**

	31 December 2020				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Debt instrument investments at amortized cost (excluding receivable from the MOF and special government bond)	5,273,439	5,333,755	27,772	5,151,535	154,448
Financial liabilities					
Bonds issued	439,621	441,775	28,749	413,026	—

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value.

	31 December 2021			
	Level 1	Level 2	Level 3	Total
Derivative financial assets				
— Exchange rate derivatives	–	20,116	–	20,116
— Interest rate derivatives	–	1,141	–	1,141
— Precious metal contracts	–	721	–	721
Subtotal	–	21,978	–	21,978
Loans and advances to customers				
— Discounted bills and forfeiting	–	502,748	–	502,748
Subtotal	–	502,748	–	502,748
Financial investment				
Financial assets at fair value through profit or loss				
— Held for trading				
Bonds	8,225	119,912	–	128,137
Precious metal contracts	–	21,389	–	21,389
Equity	3,948	1,331	–	5,279
Fund and others	4,261	316	–	4,577
— Other financial assets at fair value through profit or loss				
Bonds	–	154,585	274	154,859
Equity	13,501	12,063	79,112	104,676
Fund and others	251	19,305	19,455	39,011
— Financial assets designated at fair value through profit or loss				
Debt securities	2,273	40	–	2,313
Subtotal	32,459	328,941	98,841	460,241
Other debt instruments and other equity investments at fair value through other comprehensive income				
Debt instruments				
— Bonds	162,072	1,213,723	–	1,375,795
— Others	–	16,896	–	16,896
Equity instruments	1,165	–	3,424	4,589
Subtotal	163,237	1,230,619	3,424	1,397,280
Total assets	195,696	2,084,286	102,265	2,382,247

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value. (Continued)

	31 December 2021			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Held for trading				
— Financial liabilities related to precious metals	–	(15,646)	–	(15,646)
Financial liabilities designated at fair value through profit or loss				
— Liabilities of the controlled structured entities	–	–	(214)	(214)
Subtotal	–	(15,646)	(214)	(15,860)
Derivative financial liabilities				
— Exchange rate derivatives	–	(14,734)	–	(14,734)
— Interest rate derivatives	–	(2,366)	–	(2,366)
— Precious metal contracts	–	(2,237)	–	(2,237)
Subtotal	–	(19,337)	–	(19,337)
Due to customers				
Due to customers measured at fair value	–	(52,306)	–	(52,306)
Total liabilities	–	(87,289)	(214)	(87,503)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 *Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position* (Continued)

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value. (Continued)

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Derivative financial assets				
— Exchange rate derivatives	–	58,187	–	58,187
— Interest rate derivatives	–	1,009	–	1,009
— Precious metal contracts	–	2,741	–	2,741
Subtotal	–	61,937	–	61,937
Loans and advances to customers				
— Discounted bills and forfeiting	–	577,997	–	577,997
— Negotiation L/C	–	52	–	52
Subtotal	–	578,049	–	578,049
Financial investment				
Financial assets at fair value through profit or loss				
— Held for trading				
Bonds	1,257	181,268	–	182,525
Precious metal contracts	–	21,959	–	21,959
Equity	3,912	1,032	–	4,944
Fund and others	14,323	209	–	14,532
— Other financial assets at fair value through profit or loss				
Bonds	–	132,530	1,478	134,008
Equity	1,842	23,561	71,998	97,401
Fund and others	2,998	6,936	18,897	28,831
— Financial assets designated at fair value through profit or loss				
Debt securities	8,750	55,116	–	63,866
Placements with and loans to banks and other financial institutions	–	24,493	3,442	27,935
Others	–	–	7,068	7,068
Subtotal	33,082	447,104	102,883	583,069
Other debt instruments and other equity investments at fair value through other comprehensive income				
Debt instruments				
— Bonds	114,780	1,417,718	–	1,532,498
— Others	–	531	18,410	18,941
Equity instruments	1,222	–	2,709	3,931
Subtotal	116,002	1,418,249	21,119	1,555,370
Total assets	149,084	2,505,339	124,002	2,778,425

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 *Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position* *(Continued)*

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value. (Continued)

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Held for trading				
— Financial liabilities related to precious metals	–	(13,725)	–	(13,725)
Financial liabilities designated at fair value through profit or loss				
— Placements from banks and other financial institutions by principal guaranteed wealth management	–	–	(9,540)	(9,540)
— Liabilities of the controlled structured entities	(4,222)	–	(230)	(4,452)
— Others	–	(100)	–	(100)
Subtotal	(4,222)	(13,825)	(9,770)	(27,817)
Derivative financial liabilities				
— Exchange rate derivatives	–	(57,756)	–	(57,756)
— Interest rate derivatives	–	(4,357)	–	(4,357)
— Precious metal contracts and others	–	(3,169)	–	(3,169)
Subtotal	–	(65,282)	–	(65,282)
Due to customers				
Due to customers measured at fair value	–	(268,551)	(73,118)	(341,669)
Total liabilities	(4,222)	(347,658)	(82,888)	(434,768)

Substantially all financial instruments classified within Level 2 of the fair value hierarchy are debt investments, currency forwards, currency swaps, interest rate swaps, currency options, precious metal contracts and structured deposit measured at fair value. Fair value of debt investments denominated in RMB is determined based upon the valuation published by the China Central Depository & Clearing Co., Ltd. Fair value of debt investments denominated in foreign currencies is determined based upon the valuation results published by Bloomberg. The fair value of currency forwards, currency swaps, interest rate swaps, currency options and structured deposit measured at fair value are calculated by applying discounted cash flow analysis or the Black Scholes Pricing Model. The fair value of precious metal contracts that are related to the Group's trading activities is determined with reference to the relevant observable market parameters. All significant inputs are observable in the market.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

Level 3 financial assets of the Group mainly represented underlying assets invested by principal-guaranteed WMPs issued by the Group including placements with and loans to banks and other financial institutions and credit assets. The counterparties of these placements are primarily non-bank financial institutions in Chinese mainland. The credit assets are loans and advances to corporate customers in Chinese mainland. Level 3 financial liabilities largely represented liabilities to the investors of these products. As not all of the inputs needed to estimate the fair value of these assets and liabilities are observable, the Group classified these investment products within Level 3 of the fair value measurement hierarchy. The significant unobservable inputs related to these assets and liabilities are those parameter relating to credit risk, liquidity and discount rate. Management has made assumptions on unobservable inputs based on observed indicators of impairment, significant changes in yield, external credit ratings and comparable credit spreads, but the fair value of these underlying assets and liabilities could be different from those disclosed.

The reconciliation of Level 3 classified financial assets and financial liabilities presented at fair value on the consolidated statement of financial position is as follows:

	2021			
	Financial assets at fair value through profit or loss	Other debt instrument and other equity investments at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Due to customers measured at fair value
1 January 2021	102,883	21,119	(9,770)	(73,118)
Purchases	32,827	1,792	–	–
Issues	–	–	–	–
Settlements/disposals/transfer out of level 3	(37,436)	(19,277)	9,570	73,553
Total gain/(loss) recognized in				
— Profit or loss	567	659	(14)	(435)
— Other comprehensive income	–	(869)	–	–
31 December 2021	98,841	3,424	(214)	–
Change in unrealized profit or loss for the period included in profit or loss for assets/liabilities held at the end of the year	783	–	–	–

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

	2020			
	Financial assets at fair value through profit or loss	Other debt instrument and other equity investments at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Due to customers measured at fair value
1 January 2020	96,871	20,569	(6,681)	(306,294)
Purchases	62,943	6,875	(230)	–
Issues	–	–	(185,640)	(1,155,477)
Settlements/disposals	(57,086)	(6,406)	183,361	1,395,128
Total loss/(gain) recognized in				
— Profit or loss	155	108	(580)	(6,475)
— Other comprehensive income	–	(27)	–	–
31 December 2020	102,883	21,119	(9,770)	(73,118)
Change in unrealized loss/(gain) for the period included in profit or loss for assets/ liabilities held at the end of the year	899	–	(100)	–

In level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the period are presented in net gain/(loss) on financial investments (Note IV 4) of the consolidated income statement.

47 EVENTS AFTER THE REPORTING PERIOD

47.1 Profit appropriation

(1) On 26 January 2022, pursuant to the resolutions of the Board of Directors' meeting, a cash dividend at the dividend rate of 4.84% per annum related to the second tranche of preference shares amounting to RMB1,936 million in total was approved and the dividend was distributed on 11 March 2022.

(2) Pursuant to the meeting of the Board of Directors on 30 March 2022, the proposal for profit appropriations of the Bank for the year ended 31 December 2021 are set forth as follows:

(i) An appropriation of RMB24,335 million to the statutory surplus reserve (Note IV 36);

(ii) An appropriation of RMB32,221 million to the general reserve (Note IV 37);

(iii) A cash dividend of RMB0.2068 per ordinary share in respect of the year ended 31 December 2021 based on the number of ordinary shares issued as at 31 December 2021 totaling RMB72,376 million (Note IV 10).

As at 31 December 2021, the statutory surplus reserve had been recognized as appropriation. The other two items will be recognized in the Group's financial statements after approval by ordinary equity holders in the forthcoming Annul General Meeting.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 EVENTS AFTER THE REPORTING PERIOD (Continued)

47.2 Undated capital bonds issued

On 22 February 2022, the Bank issued "2022 Undated Capital Bonds (First Tranche) of Agricultural Bank of China Limited" (the "Bonds") in China's national inter-bank bond market. The issue size of the Bonds is RMB50 billion. The proceeds from this issue of the Bonds will be used to replenish the Bank's additional tier 1 capital.

48 COMPARATIVES

Certain comparative amounts have been reclassified to conform with the current year's presentation.

49 STATEMENT OF FINANCIAL POSITION OF THE BANK

	As at 31 December	
	2021	2020
Assets		
Cash and balances with central banks	**2,320,907**	2,436,779
Deposits with banks and other financial institutions	**198,745**	413,567
Precious metals	**96,504**	87,357
Placements with and loans to banks and other financial institutions	**531,065**	634,055
Derivative financial assets	**21,978**	61,937
Financial assets held under resale agreements	**832,216**	812,797
Loans and advances to customers	**16,377,896**	14,489,992
Financial investments		
Financial assets at fair value through profit or loss	**320,106**	396,298
Debt instrument investments at amortized cost	**6,337,768**	5,651,053
Other debt instrument and other equity investments at fair value through other comprehensive income	**1,337,218**	1,439,296
Investment in subsidiaries	**51,523**	41,544
Investments in associates and joint ventures	**1,073**	210
Controlled structured entities investments	**—**	119,862
Property and equipment	**140,675**	139,588
Deferred tax assets	**142,180**	132,489
Other assets	**127,195**	143,978
Total assets	**28,837,049**	27,000,802
Liabilities		
Borrowings from central banks	**747,101**	737,048
Deposits from banks and other financial institutions	**1,636,419**	1,413,174
Placements from banks and other financial institutions	**233,468**	344,907
Financial liabilities at fair value through profit or loss	**15,646**	23,365
Derivative financial liabilities	**19,337**	65,254
Financial assets sold under repurchase agreements	**30,456**	104,440
Due to customers	**21,906,047**	20,371,534
Debt securities issued	**1,461,094**	1,326,408
Other liabilities	**388,958**	427,892
Total liabilities	**26,438,526**	24,814,022

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 STATEMENT OF FINANCIAL POSITION OF THE BANK (Continued)

	As at 31 December	
	2021	2020
Equity		
Ordinary shares	**349,983**	349,983
Other equity instruments	**359,872**	319,875
Preference shares	**79,899**	79,899
Perpetual bonds	**279,973**	239,976
Capital reserve	**173,357**	173,357
Investment revaluation reserve	**34,262**	25,784
Surplus reserve	**219,926**	195,591
General reserve	**348,955**	309,642
Retained earnings	**913,752**	812,626
Foreign currency translation reserve	**(1,584)**	(78)
Total equity	**2,398,523**	2,186,780
Total equity and liabilities	**28,837,049**	27,000,802

Approved and authorized for issue by the Board of Directors on 30 March 2022.

Chairman

Vice Chairman

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50 STATEMENT OF CHANGES IN EQUITY OF THE BANK

	Ordinary shares	Other equity instruments	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Total
As at 31 December 2020	349,983	319,875	173,357	25,784	195,591	309,642	812,626	(78)	2,186,780
Profit for the year	–	–	–	–	–	–	243,354	–	243,354
Other comprehensive income	–	–	–	8,478	–	–	–	(1,506)	6,972
Total comprehensive income for the year	–	–	–	8,478	–	–	243,354	(1,506)	250,326
Capital contribution from equity holders	–	39,997	–	–	–	–	–	–	39,997
Appropriation to surplus reserve	–	–	–	–	24,335	–	(24,335)	–	–
Appropriation to general reserve	–	–	–	–	–	39,313	(39,313)	–	–
Dividends paid to ordinary equity holders	–	–	–	–	–	–	(64,782)	–	(64,782)
Dividends paid to other equity instrument holder	–	–	–	–	–	–	(13,798)	–	(13,798)
As at 31 December 2021	349,983	359,872	173,357	34,262	219,926	348,955	913,752	(1,584)	2,398,523

	Ordinary shares	Other equity instruments	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Total
As at 31 December 2019	349,983	199,886	173,357	29,549	174,551	275,790	730,309	1,960	1,935,385
Profit for the year	–	–	–	–	–	–	210,401	–	210,401
Other comprehensive income	–	–	–	(3,765)	–	–	–	(2,038)	(5,803)
Total comprehensive income for the year	–	–	–	(3,765)	–	–	210,401	(2,038)	204,598
Capital contribution from equity holders	–	119,989	–	–	–	–	–	–	119,989
Appropriation to surplus reserve	–	–	–	–	21,040	–	(21,040)	–	–
Appropriation to general reserve	–	–	–	–	–	33,852	(33,852)	–	–
Dividends paid to ordinary equity holders	–	–	–	–	–	–	(63,662)	–	(63,662)
Dividends paid to other equity instrument holder	–	–	–	–	–	–	(9,530)	–	(9,530)
As at 31 December 2020	349,983	319,875	173,357	25,784	195,591	309,642	812,626	(78)	2,186,780

羅兵咸永道

To the Shareholders of Agricultural Bank of China Limited
(Incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of Agricultural Bank of China Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 188 to 349, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarized as follows:

- Measurement of expected credit losses for loans and advances to customers
- Consolidation of structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers	
Refer to Note II 8.5, Note III 1, Note IV 8, Note IV 17 and Note IV 44.1 to the consolidated financial statements. As at 31 December 2020, the carrying amount of Group's loans and advances to customers was RMB14,552.43 billion, of which RMB13,974.38 billion were measured at amortized cost and RMB578.00 billion were measured at fair value through other comprehensive income. A loss allowance of RMB618.01 billion was recognized for loans and advances to customers measured at amortized cost and a loss allowance of RMB13.20 billion was recognized for loans and advances to customers measured at fair value through other comprehensive income in the Group's consolidated statement of financial position. The credit impairment losses on loans and advances to customers recognized in the Group's consolidated income statement for the year ended 31 December 2020 amounted to RMB138.99 billion. The loss allowances for loans and advances to customers represent the management's best estimates at the balance sheet date of expected credit losses under International Financial Reporting Standard 9: Financial Instruments expected credit losses ("ECL") models.	We obtained an understanding of the management's internal control and assessment process of the measurement of expected credit losses for loans and advances to customers, and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors. We evaluated and tested the design and operating effectiveness of the internal controls relating to the measurement of expected credit losses for loans and advances to customers, primarily including: (1) Internal controls over ECL models, including the selection, approval and application of modelling methodology; and ongoing monitoring and optimization of the models; (2) Review and approval of significant management judgements and assumptions, including portfolio segmentation, model selections, relevant parameters estimation, determination of significant increase in credit risk, identification of default and credit-impaired assets and forward-looking measurement; (3) Internal controls over the accuracy and completeness of data used by the models; (4) Internal controls relating to estimated future cash flows and calculations of present values of such cash flows for corporate loans and advances in stage III; (5) Internal controls over the information systems for ECL measurement; (6) Evaluation and approval of the measurement result of expected credit losses for loans and advances to customers.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers (Continued)	
The Group assessed whether the credit risk of loans and advances to customers had increased significantly since their initial recognition, and applied a three-stage impairment approach to calculate their ECL. For corporate loans and advances classified into stages I and II and for all personal loans, management assessed ECL using the risk parameter modelling approach that incorporated relevant parameters (including probability of default, loss given default, exposure at default, etc.). For corporate loans and advances in stage III, management assessed ECL by estimating the future cash flows from the loans.	The substantive procedures we preformed, primarily including: According to the risk characteristics of assets, we evaluated the segmentation of business operations. We assessed the appropriateness of the modelling methodologies adopted for ECL measurement by comparing with the industry practice. We examined the ECL calculation engines on a sample basis, to validate whether or not the ECL calculation engines reflect the management's modelling methodologies. We examined the accuracy of data inputs for the ECL models, and evaluated the reasonableness of relevant parameters, covering (i) examination of supporting information on a sample basis, including contractual information, such as maturity dates, and other financial and non-financial information, such as the borrower's historical and reporting date information, which have been agreed with the underlying data used to generate probability of default and internal credit ratings, and assessment of the reasonableness of probability of default; (ii) assessment of the reasonableness of the loss given default using historical data and benchmarking against industry practices; and (iii) examination of borrowing contracts and assessment of the reasonableness of exposure at default and discount rates. In addition, we performed back-testing on probability of default, loss given default, and assessed the impact of back-testing results on the models.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers (Continued)	
The measurement of ECL for loans and advances to customers involves significant management judgments and assumptions, primarily including: (1) Segmentation of portfolio based on credit risk characteristics, selection of appropriate models and determination of relevant parameters; (2) Determination of whether or not there was a significant increase in credit risk, default or credit-impaired; (3) Economic indicators, economic scenarios and weightings used in the forward looking measurement; (4) Estimation of future cash flows for corporate loans and advances in stage III. The Group established internal controls for the measurement of ECL. The loss allowances for loans and advances to customers involved significant amounts, and were subject to high degree of estimation uncertainty. The inherent risk in relation to ECL measurement was considered significant as the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In view of these reasons, we identified this as a key audit matter.	We performed substantive testing over a sample of loans and advances to customers, and considered financial and non-financial information, relevant external evidence and other factors of the borrowers, to assess the appropriateness of management's identification of significant increase in credit risk, defaults and credit-impaired loans. For forward-looking measurement, we evaluated management's analysis of their selection of economic indicators, economic scenarios and weightings assigned. We assessed the reasonableness of the parameters and inputs used in the forward looking and multiple economic scenarios models. We performed sensitivity analysis of the economic indicators, economic scenarios and weightings assigned. For corporate loans and advances in stage III, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance. Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of ECL for loans and advances to customers, the models, relevant parameters and data, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation of structured entities	
Refer to Note II 2, Note III 5 and Note IV 41 to the consolidated financial statements. Structured entities primarily included Wealth Management Products ("WMPs"), securitization products, funds, trust investment plans and asset management plans issued, managed and/or invested by the Group. As at 31 December 2020, total assets of the consolidated structured entities and the carrying amount of unconsolidated structured entities invested by the Group included in the consolidated statement of financial position amounted to RMB241.50 billion and RMB92.19 billion, respectively. In addition, as at 31 December 2020, total assets of non-principal guaranteed WMPs, funds and asset management plans sponsored and managed by the Group which were not consolidated and not included in the consolidated statement of financial position amounted to RMB2,170.62 billion and RMB440.73 billion, respectively. Management had determined whether the Group had control of certain structured entities based on their assessment of the Group's power over, its exposure to variable returns from its involvement with, and its ability to use its power to affect the amount of its returns from these structured entities. The significant judgement exercised by management in assessing whether the Group had control of structured entities and the amount of such structured entities resulted in this matter being identified as a key audit matter.	We evaluated and tested the design and operating effectiveness of the Group's relevant controls over consolidation assessment of structured entities, including approval of transaction structure, review and approval of contractual terms, variable return computations, and consolidation assessment results. We selected samples of structured entities and assessed the Group's contractual rights and obligations in light of the transaction structures, and evaluated the Group's power over the structured entities. We performed independent analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned by the Group as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. We also assessed whether the Group acted as a principal or an agent, through analysis of the scope of the Group's decision-making authority over the sampled structured entities, the remuneration to which the Group was entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities. Based on the procedures performed, we found management's consolidation judgment of these structured entities acceptable.

Other Information

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Kwok Wai, Jimmy.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2021

Consolidated Income Statement

For the year ended 31 December 2020
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Year ended 31 December	
	IV	**2020**	2019
Interest income	1	**930,932**	873,140
Interest expense	1	**(385,853)**	(372,270)
Net interest income	1	**545,079**	500,870
Fee and commission income	2	**91,166**	88,316
Fee and commission expense	2	**(16,621)**	(15,389)
Net fee and commission income	2	**74,545**	72,927
Net trading gain	3	**16,405**	19,067
Net (loss)/gain on financial investments	4	**(7,312)**	5,793
Net gain on derecognition of financial assets measured at amortized cost		**1**	–
Other operating income	5	**30,614**	30,693
Operating income		**659,332**	629,350
Operating expenses	6	**(229,897)**	(224,096)
Credit impairment losses	8	**(164,699)**	(138,605)
Impairment losses on other assets		**(204)**	(118)
Operating profit		**264,532**	266,531
Share of result of associates and joint ventures	20	**518**	45
Profit before tax		**265,050**	266,576
Income tax expense	9	**(48,650)**	(53,652)
Profit for the year		**216,400**	212,924
Attributable to:			
Equity holders of the Bank		**215,925**	212,098
Non-controlling interests		**475**	826
		216,400	212,924
Earnings per share attributable to the ordinary equity holders of the Bank (expressed in RMB yuan per share)			
— Basic and diluted	11	**0.59**	0.59

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020
(Amounts in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2020	2019
Profit for the year	**216,400**	212,924
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on financial assets at fair value through other comprehensive income	**(8,855)**	9,239
Loss allowance on financial assets at fair value through other comprehensive income	**3,754**	5,637
Income tax impact for fair value changes and loss allowance on financial assets at fair value through other comprehensive income	**1,440**	(4,206)
Foreign currency translation differences	**(2,591)**	746
Subtotal	**(6,252)**	11,416
Items that will not be reclassified subsequently to profit or loss:		
Fair value changes on other equity investments designated at fair value through other comprehensive income	**(114)**	383
Income tax impact for fair value changes on other equity investments designated at fair value through other comprehensive income	**29**	(98)
Subtotal	**(85)**	285
Other comprehensive income, net of tax	**(6,337)**	11,701
Total comprehensive income for the year	**210,063**	224,625
Total comprehensive income attributable to:		
Equity holders of the Bank	**209,637**	223,536
Non-controlling interests	**426**	1,089
	210,063	224,625

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2020
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	As at 31 December 2020	2019
Assets			
Cash and balances with central banks	12	**2,437,275**	2,699,895
Deposits with banks and other financial institutions	13	**434,185**	235,742
Precious metals		**87,357**	30,063
Placements with and loans to banks and other financial institutions	14	**546,948**	523,183
Derivative financial assets	15	**61,937**	24,944
Financial assets held under resale agreements	16	**816,206**	708,551
Loans and advances to customers	17	**14,552,433**	12,819,764
Financial investments	18		
Financial assets at fair value through profit or loss		**583,069**	801,361
Debt instrument investments at amortized cost		**5,684,220**	4,946,741
Other debt instrument and other equity investments at fair value through other comprehensive income		**1,555,370**	1,674,828
Investment in associates and joint ventures	20	**8,865**	6,672
Property and equipment	21	**151,154**	152,484
Goodwill		**1,381**	1,381
Deferred tax assets	22	**133,355**	120,952
Other assets	23	**151,292**	130,930
Total assets		**27,205,047**	24,877,491
Liabilities			
Borrowings from central banks	24	**737,161**	608,536
Deposits from banks and other financial institutions	25	**1,394,516**	1,503,909
Placements from banks and other financial institutions	26	**390,660**	325,363
Financial liabilities at fair value through profit or loss	27	**27,817**	30,234
Derivative financial liabilities	15	**65,282**	29,548
Financial assets sold under repurchase agreements	28	**109,195**	53,197
Due to customers	29	**20,372,901**	18,849,155
Debt securities issued	30	**1,371,845**	1,108,212
Deferred tax liabilities	22	**334**	520
Other liabilities	31	**524,590**	414,956
Total liabilities		**24,994,301**	22,923,630

Consolidated Statement of Financial Position (Continued)

As at 31 December 2020
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	As at 31 December	
	IV	**2020**	2019
Equity			
Ordinary shares	32	**349,983**	349,983
Other equity instruments	33	**319,875**	199,886
Preference shares		**79,899**	79,899
Perpetual bonds		**239,976**	119,987
Capital reserve	34	**173,556**	173,556
Investment revaluation reserve	35	**25,987**	29,684
Surplus reserve	36	**196,071**	174,910
General reserve	37	**311,449**	277,016
Retained earnings		**828,240**	741,101
Foreign currency translation reserve		**(372)**	2,219
Equity attributable to equity holders of the Bank		**2,204,789**	1,948,355
Non-controlling interests		**5,957**	5,506
Total equity		**2,210,746**	1,953,861
Total equity and liabilities		**27,205,047**	24,877,491

The accompanying notes form an integral part of these consolidated financial statements.

Approved and authorized for issue by the Board of Directors on 30 March 2021.

中国农业银行股份有限公司

Chairman

Vice Chairman

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020
(Amounts in millions of Renminbi, unless otherwise stated)

		Total equity attributable to equity holders of the Bank										
	Notes IV	Ordinary shares	Other equity instruments	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Subtotal	Non-controlling interests	Total
As at 31 December 2019		**349,983**	**199,886**	**173,556**	**29,684**	**174,910**	**277,016**	**741,101**	**2,219**	**1,948,355**	**5,506**	**1,953,861**
Profit for the year		–	–	–	–	–	–	**215,925**	–	**215,925**	**475**	**216,400**
Other comprehensive income		–	–	–	**(3,697)**	–	–	–	**(2,591)**	**(6,288)**	**(49)**	**(6,337)**
Total comprehensive income for the year		–	–	–	**(3,697)**	–	–	**215,925**	**(2,591)**	**209,637**	**426**	**210,063**
Capital contribution from other equity instrument holders	33	–	**119,989**	–	–	–	–	–	–	**119,989**	–	**119,989**
Capital contribution from non-controlling interests		–	–	–	–	–	–	–	–	–	**25**	**25**
Appropriation to surplus reserve	36	–	–	–	–	**21,161**	–	**(21,161)**	–	–	–	–
Appropriation to general reserve	37	–	–	–	–	–	**34,433**	**(34,433)**	–	–	–	–
Dividends paid to ordinary equity holders	10	–	–	–	–	–	–	**(63,662)**	–	**(63,662)**	–	**(63,662)**
Dividends paid to other equity instrument holders	10	–	–	–	–	–	–	**(9,530)**	–	**(9,530)**	–	**(9,530)**
As at 31 December 2020		**349,983**	**319,875**	**173,556**	**25,987**	**196,071**	**311,449**	**828,240**	**(372)**	**2,204,789**	**5,957**	**2,210,746**
As at 31 December 2018		349,983	79,899	173,556	18,992	154,257	239,190	652,944	1,473	1,670,294	4,493	1,674,787
Profit for the year		–	–	–	–	–	–	212,098	–	212,098	826	212,924
Other comprehensive income		–	–	–	10,692	–	–	–	746	11,438	263	11,701
Total comprehensive income for the year		–	–	–	10,692	–	–	212,098	746	223,536	1,089	224,625
Capital contribution from equity holders	33	–	119,987	–	–	–	–	–	–	119,987	(76)	119,911
Appropriation to surplus reserve	36	–	–	–	–	20,653	–	(20,653)	–	–	–	–
Appropriation to general reserve	37	–	–	–	–	–	37,826	(37,826)	–	–	–	–
Dividends paid to ordinary equity holders	10	–	–	–	–	–	–	(60,862)	–	(60,862)	–	(60,862)
Dividends paid to preference shareholders	10	–	–	–	–	–	–	(4,600)	–	(4,600)	–	(4,600)
As at 31 December 2019		349,983	199,886	173,556	29,684	174,910	277,016	741,101	2,219	1,948,355	5,506	1,953,861

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020
(Amounts in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**265,050**	266,576
Adjustments for:		
Amortization of intangible assets and other assets	**2,147**	1,934
Depreciation of property, equipment and right-of-use assets	**17,404**	16,777
Credit impairment losses	**164,699**	138,605
Impairment losses on other assets	**204**	118
Interest income arising from investment securities	**(238,995)**	(232,571)
Interest expense on debt securities issued	**35,746**	31,375
Revaluation gain on financial instruments at fair value through profit or loss	**(2,968)**	(9,641)
Net gain on investment securities	**(750)**	(494)
Share of result of associates and joint ventures	**(518)**	(45)
Net gain on disposal of property, equipment and other assets	**(1,003)**	(1,217)
Net foreign exchange gain/(loss)	**26,972**	(8,135)
	267,988	203,282
Net change in operating assets and operating liabilities:		
Net (increase)/decrease in balances with central banks, deposits with banks and other financial institutions	**(330,552)**	173,726
Net decrease/(increase) in placements with and loans to banks and other financial institutions	**29,377**	(42,279)
Net (increase)/decrease in financial assets held under resale agreements	**(49,415)**	15,474
Net increase in loans and advances to customers	**(1,832,315)**	(1,442,873)
Net increase in borrowings from central banks	**128,514**	49,587
Net increase/(decrease) in placements from banks and other financial institutions	**65,941**	(98)
Net increase in due to customers and deposits from banks and other financial institutions	**1,375,364**	1,854,777
Decrease/(Increase) in other operating assets	**94,748**	(148,837)
Increase/(Decrease) in other operating liabilities	**253,209**	(250,688)
Cash from operations	**2,859**	412,071
Income tax paid	**(63,795)**	(53,675)
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	**(60,936)**	358,396

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2020
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Year ended 31 December	
	IV	**2020**	2019
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from disposal/redemption of investment securities		**1,987,387**	1,731,574
Cash received from interest income arising from investment securities		**228,563**	223,034
Cash received from disposal of property, equipment and other assets		**8,350**	1,178
Cash paid for purchase of investment securities		**(2,669,040)**	(2,169,824)
Increase in investment in associates and joint ventures		**(1,676)**	(2,657)
Cash paid for purchase of property, equipment and other assets		**(22,844)**	(14,110)
NET CASH USED IN INVESTING ACTIVITIES		**(469,260)**	(230,805)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution from issues of other equity instruments		**120,000**	120,000
Cash payments for transaction cost of other equity instruments issued		**(11)**	(13)
Cash received from debt securities issued		**1,731,396**	1,465,652
Repayments of debt securities issued		**(1,468,391)**	(1,141,046)
Cash payments for interest on debt securities issued		**(35,050)**	(28,441)
Cash payments for transaction cost of debt securities issued		**(6)**	(63)
Cash payments for principal portion and interest portion of lease liability		**(4,968)**	(4,687)
Capital contribution from non-controlling interests		**25**	—
Dividends paid to ordinary shareholders		**(63,662)**	(60,862)
Dividends paid to other equity instruments holders		**(9,530)**	(4,600)
NET CASH FROM FINANCING ACTIVITIES		**269,803**	345,940
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(260,393)**	473,531
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		**1,454,581**	978,441
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(19,035)**	2,609
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	38	**1,175,153**	1,454,581
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		**655,726**	582,522
Interest paid		**(315,177)**	(318,125)

The accompanying notes form an integral part of these consolidated financial statements.

I GENERAL INFORMATION

Agricultural Bank of China Limited (the "Bank") is the successor entity to the Agricultural Bank of China (the "Predecessor Entity") which was a wholly state-owned commercial bank approved for setup by the People's Bank of China (the "PBOC") and founded on 23 February 1979 in the People's Republic of China (the "PRC"). On 15 January 2009, the Bank was established after the completion of the financial restructuring of the Predecessor Entity. The Bank's establishment was authorized by the PBOC. The Bank was listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited on 15 July 2010 and 16 July 2010, respectively.

The Bank operates under financial services certificate No. B0002H111000001 issued by the China Banking and Insurance Regulatory Commission (the "CBIRC"), and business license No. 911100001000054748 issued by Beijing Administration of Industry and Commerce. The registered office of the Bank is located at No. 69 Jianguomen Nei Avenue, Dongcheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively, the "Group") include Renminbi ("RMB") and foreign currency deposits, loans, clearing and settlement services, assets custodian services, fund management, financial leasing services, insurance services and other services as approved by relevant regulators, and the provision of related services by its overseas establishments as approved by the respective local regulators.

The head office and domestic branches of the Bank and its subsidiaries operating in the Mainland China are referred to as the "Domestic Operations". Branches and subsidiaries registered and operating outside of the Mainland China are referred to as the "Overseas Operations".

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap.622) for this financial year and the comparative period.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of consideration given in exchange for assets and that is received (or in some circumstances the amount expected to be paid) with respect to liabilities.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basic of preparation (Continued)

1.1 Other amendments to the accounting standards effective in 2020 relevant to and adopted by the Group

The following amendments have been adopted by the Group for the first time during the financial year ended 31 December 2020.

(1)	Amendments to IAS 1 and IAS 8	The Definition of Material
(2)	Amendments to IFRS 3	The Definition of A Business
(3)	Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform
(4)	Amendment to IFRS 16	Covid-19-Related Rent Concessions

(1) Amendments to IAS 1 and IAS 8: The Definition of Material

The IASB issued amendments to the definition of material in IAS 1 and IAS 8. The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole.

The amendment also clarifies the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need. The adoption of the amendments did not have a significant impact on the Group's consolidated financial statements.

(2) Amendments to IFRS 3: The Definition of A Business

The IASB issued amendments to the definition of a business in IFRS 3. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The adoption of the amendments did not have a significant impact on the Group's consolidated financial statements.

(3) Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform

The IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7 that provide certain reliefs in connection with interest rate benchmark reform. The amendments apply to all hedging relationships that are directly affected by interbank offered rates ("IBOR") reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. The adoption of the amendments did not have a significant impact on the Group's consolidated financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basic of preparation (Continued)

1.1 Other amendments to the accounting standards effective in 2020 relevant to and adopted by the Group (Continued)

(4) Amendment to IFRS 16: Covid-19-Related Rent Concessions

On 28 May 2020, the IASB issued amendments to IFRS 16: Covid-19-Related Rent Concessions that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The amendments are mandatory for annual reporting periods beginning on or after 1 June 2020, earlier application is permitted. The adoption of the amendments did not have a significant impact on the Group's consolidated financial statements.

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2020

The Group has not adopted the following new and amended standards that have been issued but are not yet effective.

			Effective for annual periods beginning on or after
(1)	Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest rate benchmark (IBOR) reform	1 January 2021
(2)	Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2022 possibly deferred to 1 January 2023
(3)	Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
(4)	Amendments to IAS 37	Cost of Fulfilling a Contract	1 January 2022
(5)	Amendments to IAS 16	Proceeds before Intended Use	1 January 2022
(6)	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	IASB Annual Improvements 2018–2020 cycle	1 January 2022
(7)	IFRS 17	Insurance Contracts	1 January 2023
(8)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basic of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2020 *(Continued)*

(1) *Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest rate benchmark (IBOR) reform*

The IASB has issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 that address issues that arise during the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one. Given the pervasive nature of IBOR-based contracts, the reliefs could affect companies in all industries. The amendments are effective for annual periods beginning on or after 1 January 2021, with early application permitted.

The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform, including: 1. For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. 2. Require an entity to prospectively cease to apply the Phase 1 reliefs to a non contractually specified risk component at the earlier of when changes are made to the non contractually specified risk component, or when the hedging relationship is discontinued. 3. Additional temporary exceptions from applying specific hedge accounting requirement. 4. Additional IFRS 7 disclosure requirements related to IBOR reform.

The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(2) *Amendments to IAS 1: Classification of Liabilities as Current or Non-current*

The IASB issued a narrow-scope amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The amendment requires the following:

- Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The amendment no longer refers to unconditional rights, since loans are rarely unconditional (for example, because the loan might contain covenants).

- The assessment determines whether a right exists, but it does not consider whether the entity will exercise the right. So management's expectations do not affect classification.

- The right to defer only exists if the entity complies with any relevant conditions at the reporting date. A liability is classified as current if a condition is breached at or before the reporting date and a waiver is obtained after the reporting date. A loan is classified as non-current if a covenant is breached after the reporting date.

- "Settlement" is defined as the extinguishment of a liability with cash, other economic resources or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basic of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2020 (Continued)

(2) Amendments to IAS 1: Classification of Liabilities as Current or Non-current (Continued)

The amendment changes the guidance for the classification of liabilities as current or non-current. It could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. All entities should reconsider their existing classification in the light of the amendment and determine whether any changes are required. In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to 1 January 2023. The Group anticipates that the adoption of the amendments will have no impact on the Group's consolidated financial statements.

(3) Amendments to IFRS 3: Reference to the Conceptual Framework

The IASB issued amendments to IFRS 3: Reference to the Conceptual Framework. The amendments have updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(4) Amendments to IAS 37: Cost of Fulfilling a Contract

The IASB issued amendments to IAS 37: Cost of Fulfilling a Contract. The amendments clarify the meaning of 'costs to fulfil a contract', they explain that the direct cost of fulfilling a contract comprises: the incremental costs of fulfilling that contract and; an allocation of other costs that relate directly to fulfilling contracts. The amendments also clarify that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. The amendments could result in the recognition of more onerous contract provisions, because previously some entities only included incremental costs in the costs to fulfil a contract. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(5) Amendments to IAS 16: Proceeds before Intended Use

The IASB issued amendments to IAS 16: Proceeds before Intended Use. The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The amendment also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management. The amendment requires entities to separately disclose the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. An entity should also disclose the line item in the statement of comprehensive income where the proceeds are included. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basic of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2020 (Continued)

(6) Annual improvements 2018-2020 cycle (IFRS 1, IFRS 9, IFRS 16 and IAS 41)

The IASB issued amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41: Annual improvements 2018–2020 cycle, which include fees included in the 10% test for derecognition of financial liabilities, illustrative examples accompanying IFRS 16, 'Leases', subsidiary as a first-time adopter and taxation in fair value measurements. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(7) IFRS 17: Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: discounted probability-weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The IASB issued the amendments to IFRS 17: Insurance contracts on 25 June 2020, together with an amendment to IFRS 4, so that eligible insurers can still apply IFRS 9 alongside IFRS 17. This concluded the IASB's targeted amendments to IFRS 17 which aimed to ease implementation of the standard by reducing implementation costs and making it easier for entities to explain, to investors and others, the results from applying IFRS 17. IFRS 17 should be applied to annual reporting periods beginning on or after 1 January 2023, with earlier application permitted, and the amendments should be applied at the same time.

The amendments to IFRS 17 affect all companies that issue insurance contracts in all jurisdictions that apply IFRS standards, including entities outside the insurance industry that issue such contracts. The amendments to IFRS 17 include: 1. Effective date. 2. Expected recovery of insurance acquisition cash flows. 3. Contractual service margin attributable to investment services. 4. Reinsurance contracts held — recovery of losses.

The Group has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basic of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2020 (Continued)

(8) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

2 Consolidation

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries as well as structured entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date on which control ceases, respectively.

Adjustments are made to the financial statements of subsidiaries, where appropriate, to consistently reflect the accounting policies of the Group.

All intra-group transactions, balances and unrealized gains on transactions are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Non-controlling interests of consolidated subsidiaries are presented separately from the controlling party's equity therein.

The carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Further, total comprehensive income of a subsidiary is attributed, based on the proportion of their respective holdings, to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost, less impairment losses, if any.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred by the Group, liabilities incurred or assumed by the Group, and any equity interests issued by the Group. Acquisition related costs are recognized in the consolidated income statement as incurred.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

***Business combinations** (Continued)*

At the acquisition date, irrespective of non-controlling interests, the identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair values; except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 — Income Taxes and IAS 19 — Employee Benefits, respectively.

Goodwill is measured as the excess of the difference between (i) the consideration transferred, the fair value of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) and (ii) the net fair value of the identifiable assets acquired and the liabilities and contingent liabilities incurred or assumed.

Non-controlling interests that represent ownership interests in the acquiree, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are accounted for at either fair value or the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Goodwill

Goodwill represents the excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisition of associates is included in investment in associates.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") or groups of CGUs that is expected to benefit from the synergies of the business combination.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU, which is the higher of fair value less costs to sell and value in use, is less than its carrying amount, the deficit, reflecting an impairment loss, is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis, based on the carrying amount of each asset in the CGU. Any goodwill impairment loss is recognized directly in the consolidated income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Investment in associate and joint venture

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement through a separate entity, and have rights to the net assets of the arrangement based on legal form, contract terms, and other facts and circumstances. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not constitute control or joint control over those policy decisions. Joint control is the contractually agreed sharing of control over an activity, and exists only when the decisions relating to the activity require the unanimous consent of the Group and other parties sharing the control.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

Investment in associate and joint venture *(Continued)*

The post-acquisition profit or loss of an associate or a joint venture is incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate or a joint venture is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of loss of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further loss. Additional loss is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

At the end of each reporting period, the Group considers whether there are circumstances that indicate the possibility of impairment of the Group's investment in an associate or a joint venture; when that is the case, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 — Impairment of Assets, as a single asset by comparing its recoverable amount (the higher of fair value less costs to sell and value in use) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of an impairment loss is recognized, to the extent that the recoverable amount of the investment subsequently increases.

When an entity in the Group transacts with the Group's associate or joint venture, profits and losses resulting from the transaction are recognized in the Group's consolidated financial statements only to the extent of the interest in the associate or joint venture that are not related to the Group. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3 Interest income and expenses

Interest income and expenses of financial instruments are calculated using the effective interest method and included in the current profit and loss.

The Group uses the effective interest method to calculate the interest income and expenses of financial assets and liabilities measured at amortized cost, presented as "interest income" and "interest expenses" respectively. For specific accounting policies, please refer to the Note II 8.4 subsequent measurement of financial instruments.

4 Fee and commission income

Fee and commission income is recognized when the Group fulfills its performance obligation, either over time or at a point in time when a customer obtains control of the service.

For the performance obligations satisfied at a point in time, the Group recognizes revenue when control is passed to the customer at a certain point in time, including insurance agency fee, merchant acquiring service fee, settlement & clearing services and bond underwriting fee, etc. For the performance obligations satisfied over time, the Group recognizes revenue according to the progress toward satisfaction of the obligation over the time, including consultancy and advisory fee and custodial fee, etc.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5 Foreign currency transactions

The functional currency of the Domestic Operations is RMB. The presentation currency of the Group and the Bank is RMB.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in the consolidated income statement in the period in which they arise, except for the following:

(i) exchange differences arising on a monetary item that forms part of the Bank's net investment in the Overseas Operations;

(ii) changes in the fair value of monetary assets denominated in foreign currency classified as financial investments at fair value through comprehensive income are analyzed between translation differences resulting from changes in the amortized cost of the monetary assets and other changes in the carrying amount. Translation differences related to changes in the amortized cost are recognized in the consolidated income statement, and other changes in the carrying amount are recognized in other comprehensive income.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's Overseas Operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the foreign currency translation reserve and non-controlling interests, as appropriate. The accumulated foreign currency translation reserve related to the Overseas Operations will be reclassified from equity to the consolidated income statement on disposal of all or part of the Overseas Operations.

6 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6 Taxation (Continued)

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized for temporary difference related to goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that the temporary difference will not reverse in the foreseeable future or it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in the consolidated income statement, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Value-added Taxes ("VAT")

The Group's interest income, fee and commission income, trading gain on financial products and insurance premium income are presented net of their respective VAT in the consolidated financial statements.

In accordance with "Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services" (Cai Shui [2016] No. 140) , the "Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products" (Cai Shui [2017] No. 2) and the "Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products" (Cai Shui [2017] No. 56), the Group shall pay VAT at 3% for taxable asset management activities undertaken after 1 January 2018.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditure incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, post-employment benefits and early retirement benefits.

Short-term employee benefits

In the reporting period in which an employee has rendered services, the Group recognizes the short-term employee benefits payable for those services as a liability with a corresponding increase in the expenses in the consolidated income statement or capitalization as cost of related assets. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labor union fees and staff education expenses.

Post-employment benefits

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods.

Contributions to the basic pensions and unemployment insurance plan are recognized in the consolidated income statement for the period or capitalization as cost of related assets in which the related payment obligation is incurred.

The employees of the Bank's head office and domestic branches ("Domestic Institutions") participate in an annuity scheme established by the Bank (the "Annuity Scheme"). The Bank pays annuity contributions with reference to employees' salaries, and such contributions are expensed in the consolidated income statement or capitalized as cost of related assets when incurred. The Bank has no further obligation if the Annuity Scheme does not have sufficient assets for the payment of any retirement benefits to employees funded by the Annuity Scheme.

Early retirement benefits

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The accounting treatment of the Group's early retirement benefits is in accordance with termination benefits as determined in IAS 19. The liability is recognized for the early retirement benefit payments from the date of early retirement to the normal retirement date when the criteria for recognition as termination benefit is met with a corresponding charge in the consolidated income statement. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognized in the consolidated income statement when incurred.

8 Financial instruments

8.1 Initial recognition, classification and measurement of financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Initial recognition, classification and measurement of financial instruments (Continued)

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

(1) Financial assets

Financial assets are classified in the following measurement categories based on the Group's business model for managing the asset and the cash flow characteristics of the assets:

(i) Amortized cost ("AC");

(ii) Fair value through other comprehensive income ("FVOCI"); or

(iii) Fair value through profit or loss ("FVPL").

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The classification requirements for debt instruments and equity instruments are described as below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds. Classification and measurement of debt instruments depend on the Group's business models for managing the asset and the cash flow characteristics of the asset.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Initial recognition, classification and measurement of financial instruments (Continued)

(1) Financial assets (Continued)

Debt Instruments (Continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

(i) AC: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVPL, are measured at amortized cost.

(ii) FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVPL, are measured at FVOCI.

(iii) FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL.

The Group may also irrevocably designate financial assets at FVPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI.

(2) Financial liabilities

The Group's financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at amortized cost on initial recognition. Financial liabilities at FVPL is applied to derivatives, financial liabilities held for trading and financial liabilities designated as such at initial recognition.

The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when doing so results in more relevant information, because either:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the entity's key management personnel.

(iii) The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Initial recognition, classification and measurement of financial instruments (Continued)

(2) Financial liabilities (Continued)

Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Group recognizes any expenses incurred on the financial liability.

8.2 Reclassification of financial assets

When the Group changes the business model for managing its financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

8.3 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

8.4 Subsequent measurement of financial instruments

Subsequent measurement of financial instruments depends on the categories:

(1) Amortized cost

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount; (iii) for financial assets, adjusted for any loss allowance.

Interest income and interest expenses from these financial assets is included in "Interest income" and "interest expenses" using the effective interest rate method.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.4 Subsequent measurement of financial instruments (Continued)

(1) Amortized cost (Continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses ("ECL") and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired ("POCI") financial assets, the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets and is included in "Interest income", except for:

(i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortized cost; and

(ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

(2) Fair value through other comprehensive income

Debt instruments

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in "interest income" using the effective interest rate method.

Equity instruments

The equity instrument investments that are not held for trading are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as investment income when the Group's right to receive payments is established.

(3) Financial assets at fair value through profit or loss

Debt instruments

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within "Net trading gain" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separated in "Net gain on financial investments".

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.4 Subsequent measurement of financial instruments (Continued)

(3) Financial assets at fair value through profit or loss (Continued)

Equity instruments

Gains and losses on equity investments at FVPL are included in the "Net trading gain" in the consolidated income statement.

(4) Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL are measured at fair value with all gains or losses recognized in the profit or loss of the current period, except for financial liabilities designated as at fair value through profit or loss, where gains or losses on the financial liabilities are treated as follows:

(i) changes in fair value of such financial liabilities due to changes in the Group's own credit risk are recognized in other comprehensive income; and

(ii) other changes in fair value of such financial liabilities are recognized in profit or loss of the current period. If the accounting of changes in the credit risk of the financial liabilities in accordance with (i) will create or enlarge accounting mismatches in profit or loss, the Group recognizes all gains or losses on such financial liabilities (including amounts arising from changes in its own credit risk) in the profit or loss of the current period.

When the liabilities designated as at fair value through profit or loss is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to retained earnings.

8.5 Impairment of financial instruments

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and exposures arising from some loan commitments and financial guarantee contracts.

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, which are all cash shortfalls, discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

The Group measures ECL of a financial instrument reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(ii) the time value of money; and

(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.5 Impairment of financial instruments (Continued)

For financial instruments whose impairment losses are measured using the ECL models, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

— Stage I: If the credit risk has not increased significantly since its initial recognition, the financial asset is included in stage I.

— Stage II: If the credit risk has increased significantly since its initial recognition but is not yet deemed to be credit-impaired, the financial instrument is moved to Stage II. The description of how the Group determines when a significant increase in credit risk has occurred is disclosed in Note IV 44.1.

— Stage III: If the financial instrument is credit-impaired, the financial instrument is then moved to Stage III. The definition of credit-impaired financial assets is disclosed in Note IV 44.1.

Financial instruments in Stage I have their ECL measured at an amount equivalent to the ECL of the financial asset for the next 12 months ("12m ECL"). Financial instruments in Stage II or Stage III have their ECL measured at an amount equivalent to the ECL over the lifetime of the financial instruments ("Lifetime ECL"). The description of inputs, assumptions and estimation techniques used in measuring the ECL is disclosed in Note IV 44.1.

The Group applies the impairment requirements for the recognition and measurement of a loss allowance for debt instruments that are measured at FVOCI. The loss allowance is recognized in other comprehensive income and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial asset in the statement of financial position.

If the Group has measured the loss allowance for a financial instrument other than POCI at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on the financial instruments has increased significantly since initial recognition is no longer met, the Group measures the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date and the amount of expected credit losses reversal is recognized in profit or loss. For POCI financial assets, at the reporting date, the Group only recognizes the cumulative changes in lifetime expected credit losses since initial recognition.

8.6 Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether the new terms are substantially different to the original terms.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.6 Modification of loans (Continued)

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

8.7 Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and, where applicable, the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the consolidated income statement.

Financial liabilities are derecognized when the related obligation is discharged, is cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated income statement.

8.8 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

(i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

8.9 Derivative financial instruments and hedge accounting

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognized in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.9 Derivative financial instruments and hedge accounting (Continued)

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net difference is recognised as ineffectiveness in the profit or loss.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the profit or loss.

(b) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect the profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity in the "other comprehensive income". The ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in other comprehensive income are reclassified to the profit or loss in the same periods when the hedged item affects the profit or loss.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.9 Derivative financial instruments and hedge accounting (Continued)

(b) Cash flow hedge (Continued)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

8.10 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to set off the recognized amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

8.11 Repurchase agreements and agreements to resell

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as investments classified as financial assets at fair value through profit or loss, debt instrument investments at amortized cost or other debt instrument and other equity investments at fair value through other comprehensive income as appropriate. The corresponding liability is included in financial assets sold under repurchase agreements. The items which are not derecognized are disclosed in Note IV 42 Contingent Liabilities and Commitments — Collateral.

Consideration paid for financial assets held under agreements to resell are recorded as Financial assets held under resale agreements, the related collateral accepted is not recognized in the consolidated financial statements (Note IV 42 Contingent Liabilities and Commitments — Collateral).

The difference between the purchase and sale price is recognized as interest expense or income in the consolidated income statement over the term of the agreements using the effective interest method.

9 Insurance contracts

Insurance contract classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to the reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9 Insurance contracts (Continued)

Insurance contract classification (Continued)

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 — Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

Insurance income recognition

Insurance premium income is recognised when the following conditions are met: the insurance contract is issued and related insurance risk is undertaken by the Group, the related economic benefits are likely to flow to the Group, and the related income can be reliably measured.

Insurance contract liabilities

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfill its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities will be recorded if any deficiency exists.

10 Precious metals

Precious metals comprise gold, silver and other precious metals.

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realizable value. Precious metals that are related to the Group's trading activities are initially recognized at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated income statement in the period in which they arise.

11 Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purpose (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of buildings and recorded in property and equipment.

Subsequent expenditure incurred for the property and equipment (other than construction in progress) is included in the cost of the property and equipment (other than construction in progress) if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured, and the carrying amount of the replaced part is derecognized. Other subsequent expenditure is recognized in the consolidated income statement in the period in which they are incurred.

Depreciation is recognized as a component of operating expenses in the consolidated income statement so as to recognize the consumption of the economic value of property and equipment (other than construction in progress), less their estimated residual values, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation rates are reviewed at the end of each reporting period.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11 Property and equipment (Continued)

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment are as follows:

Classes	Useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	5–50 years	3%	1.94%–19.40%
Electronic equipment, furniture and fixtures	3–11 years	3%	8.82%–32.33%
Motor vehicles	5–8 years	3%	12.13%–19.40%

Properties in the course of construction for supply of services or administrative purposes are carried at cost, as construction in progress, less any impairment loss. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in other operating income or operating expenses in the consolidated income statement. The accounting policies of impairment of property and equipment are included in Note II 18 Impairment of Tangible and Intangible Assets other than Goodwill.

12 Land use rights

Land use rights are classified in other assets and amortized over a straight-line basis over their authorized useful lives.

13 Foreclosed assets

The transferee's (The Group) foreclosed assets of the type of financial assets are initially recognized at fair value; Debt assets of the type of financial assets transferred by the Group are initially measured at fair value; Debt assets other than the transferred financial assets are initially measured at the fair value of the waived creditors' rights and other costs such as taxes directly attributable to the asset.

When the creditor who pays off the debts with multiple assets or restructure debts in portfolio, the group firstly recognize and measure transferred financial instrument as well as reorganization creditors' rights under the standard disclosed in Note II 8. Then, distributing the net amount after the fair value of the waived debt deducting the confirmed amount of the transferred financial assets and the restructuring creditors' rights, in accordance with the fair value ratio of various assets other than the transferred financial assets, and on this basis, the cost of each asset is confirmed separately in accordance with the above regulations.

The difference between the fair value and book value of the waived creditors' rights is included in the consolidated income statement in the period.

14 Investment property

Investment property is property held to earn rental income or for capital appreciation, or both.

Investment property is initially measured at its acquisition cost. Subsequent expenditure incurred for the investment property is included in the cost of the investment property if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured reliably. Other subsequent expenditure is recognized in the consolidated income statement in the period in which they are incurred.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

14 Investment property (Continued)

Investment properties are measured using the cost model. Depreciation and amortization is recognized the same way as property and equipment and land use rights.

The accounting policies of impairment of investment property are included in Note II 18 Impairment of Tangible and Intangible Assets other than Goodwill.

Where an impairment loss subsequently reverses, the carrying amount of the investment property is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized in the consolidated income statement.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated income statement.

15 Leasing

Lease is a contract or part of a contract that conveys the right to use an asset for a period of time in exchange for consideration.

The Group as lessee

The Group recognized the right-of-use assets at the commencement date, and recognized the lease liabilities at the present value of the outstanding lease payments. Lease payments include fixed payments, the amounts expected to be payable by the group if the group is reasonably certain to exercises a purchase option or a option to terminate the lease. Variable lease payments that are based on an index or a rate are recognized as an expense in profit or loss when incurred.

The Group's right-of-use assets mainly include rented houses and buildings. The right-of-use assets are measured at costs, which include the amount of the initial measurement of lease liabilities, any lease payments made at or before the commencement date, any initial direct costs and less any lease incentives received. If the Group could reasonably determine the ownership of the leased asset when the lease term expires, the right-of-use assets are depreciated over the asset's remaining useful life. Otherwise, the right-of-use assets are depreciated over the shorter period of the asset's useful life and the lease term on a straight-line basis. When the recoverable costs of right-of-use assets are lower than the carrying amount, the value of right-of-use assets will be decreased down to the recoverable costs.

Short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Leases of low value assets are the underlying assets are of low value when new.

The Group as lessor

When the Group is the lessor in a finance lease, a finance lease receivable as an amount equal to the net lease investment is recognized and the finance lease asset is derecognized at the commencement date. The finance lease receivables are recorded in the consolidated statement of financial position as Loans and advances to customers.

When the Group is the lessor in an operating lease, rental income from operating leases is recognized as other operating income in the consolidated income statement on a straight-line basis over the term of the related lease. The initial direct costs are included in the carrying amount of the underlying assets and is recognized as expenses over the lease term on the same basis as the lease income.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with original maturity of three months or less under cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements.

17 Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment loss. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives which generally range from 5 to 20 years.

Intangible assets with indefinite useful lives are not amortized, but are subject to annual impairment assessment.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement.

18 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized in the consolidated income statement.

19 Dividend distribution

Dividend distribution to the Bank's ordinary equity holders is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the ordinary equity holders in the annual general meeting of the Bank.

As authorized by the ordinary equity holders in the annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. Preference share dividend distribution is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

20 Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

20 Provisions (Continued)

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

21 Fiduciary activities

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with custody agreements between the Group and securities investment funds, social security funds, insurance companies, trust companies, qualified foreign institutional investors, annuity schemes and other institutions and individuals. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing funds for the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

22 Financial guarantee contracts and loan commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognized at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of guarantee fees, and the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated income statement.

The impairment allowance of loan commitments provided by the Group is measured using ECL models. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

23 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

23 Contingent liabilities (Continued)

A contingent liability is not recognized, but disclosed, unless the possibility of an outflow of resources embodying economic benefits is probable. The Group's contingent liabilities are disclosed in Note IV 42 Contingent Liabilities and Commitments.

A provision is recognized when it meets the criteria as set forth in Note II 20 Provisions.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Group's accounting policies, which are described in Note II, management is required to make judgments, estimates and assumptions that affect the carrying amounts of assets and liabilities. The estimates and related assumptions are based on historical experience and other relevant factors including reasonable expectations for future events.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods as appropriate.

The following are the critical judgments and key estimates management has made in the process of applying the Group's accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI and for exposures arising from some loan commitments and financial guarantee contracts, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note IV 44.1 Credit risk.

2 Classification of financial assets

The critical judgments the Group has made in determining the classification of financial assets include analysis of business models and characteristics of contractual cash flows.

The Group determines the business model for managing financial assets at the level of financial asset portfolio. The factors considered include how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

When assessing whether the contractual cash flow of financial assets is consistent with the basic lending arrangement, the Group has the following main judgments: Whether the principal may be subject to change in the duration or amount of money due to prepayments during the duration; whether interests only included time value of money, credit risk, other basic borrowing risks, and considerations for costs and profits. For example, whether the amount paid in advance reflect only the outstanding principal and interest on the outstanding principal, as well as reasonable compensation for early termination of the contract.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

3 Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models. To the extent practical, market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, liquidity, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

With respect to PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

4 Taxes

There are certain transactions and activities in the ordinary course of the Group's business for which the ultimate tax effect is uncertain. The Group made certain estimation and judgement for items of uncertainty in the application of tax legislations, taking into account existing tax legislation and past practice of tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially estimated, based on management's assessment, such differences will affect the current income tax and deferred income tax during the period in which such a determination is made.

5 Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

6 Derecognition of financial assets transferred

In its normal course of business, the Group transfers its financial assets through various types of transactions including regular way sales and transfers, securitization, financial assets sold under repurchase agreements, securities lending. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial derecognition.

Where the Group enters into structured transactions by which it transfers financial assets to structured entities, the Group analyzes whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities to determine whether the Group needs to consolidate these structured entities. This will determine whether the following derecognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets are transferred.

The Group analyzes the contractual rights and obligations in connection with such transfers to determine whether the derecognition criteria are met based on the following considerations:

- whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualifies for the "pass through" of those cash flows to independent third parties.

- the extent to which the associated risks and rewards of ownership of the financial assets are transferred. Significant judgment is applied in the Group's estimation with regard to the cash flows before and after the transfers and other factors that affect the outcomes of Group's assessment on the extent that risks and rewards are transferred.

- where the Group has neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyzes whether it has relinquished its controls over these financial assets by assessing whether the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, and if the Group has continuing involvement in these transferred financial assets. Where the Group has not retained control, it derecognizes these financial assets and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise the Group continues to recognize these financial assets to the extent of its continuing involvement in the financial asset.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 NET INTEREST INCOME

	Year ended 31 December	
	2020	2019
Interest income		
Loans and advances to customers	**631,753**	579,464
Including: Corporate loans and advances	**342,697**	326,409
Personal loans and advances	**279,855**	241,250
Discounted bills	**9,201**	11,805
Financial investments		
Debt instrument investments at amortized cost	**187,067**	172,710
Other debt instrument investments at fair value through other comprehensive income	**51,928**	59,861
Balances with central banks	**34,271**	35,024
Placements with and loans to banks and other financial institutions	**8,824**	13,585
Financial assets held under resale agreements	**9,984**	8,947
Deposits with banks and other financial institutions	**7,105**	3,549
Subtotal	**930,932**	873,140
Interest expense		
Due to customers	**(284,552)**	(279,737)
Deposits from banks and other financial institutions	**(37,588)**	(33,728)
Debt securities issued	**(35,746)**	(31,375)
Borrowings from central banks	**(20,424)**	(16,164)
Placements from banks and other financial institutions	**(6,114)**	(9,441)
Financial assets sold under repurchase agreements	**(1,429)**	(1,825)
Subtotal	**(385,853)**	(372,270)
Net interest income	**545,079**	500,870

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 NET FEE AND COMMISSION INCOME

		Year ended 31 December	
		2020	2019
Fee and commission income			
Electronic banking services		**26,169**	25,209
Agency services		**21,043**	19,801
Bank cards	(i)	**14,702**	15,486
Consultancy and advisory services		**11,174**	10,109
Settlement and clearing services		**11,129**	11,443
Custodian and other fiduciary services		**4,435**	3,899
Credit commitment		**1,875**	1,895
Others		**639**	474
Subtotal		**91,166**	88,316
Fee and commission expense			
Bank cards	(i)	**(10,760)**	(8,847)
Electronic banking services		**(3,182)**	(3,992)
Settlement and clearing services		**(1,483)**	(1,770)
Others		**(1,196)**	(780)
Subtotal		**(16,621)**	(15,389)
Net fee and commission income		**74,545**	72,927

(i) In accordance with the requirements pursuant to the Notice on "Strict Implementation of Accounting Standards for Enterprises and Effective Enhancement of 2020 Annual Reports Compilation" issued by the MOF, State-owned Assets Supervision and Administration Commission of the State Council, the CBIRC and the China Securities Regulatory Commission (the "CSRC"), the Group recognised income and expenses from relevant credit card business as interest income. The comparative figures were adjusted accordingly.

3 NET TRADING GAIN

		Year ended 31 December	
		2020	2019
Net gain on debt instruments held for trading		**4,178**	11,095
Net gain on precious metals	(i)	**4,784**	4,304
Net gain/(loss) on foreign exchange rate derivatives		**3,211**	(571)
Net loss on interest rate derivatives		**(3,103)**	(1,421)
Others		**7,335**	5,660
Total		**16,405**	19,067

(i) Net gain on precious metals consists of net gain on precious metals and precious metal related derivative products.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 NET (LOSS)/GAIN ON FINANCIAL INVESTMENTS

		Year ended 31 December	
		2020	2019
Net (loss)/gain on debt instruments designated as at FVPL		**(92)**	201
Net gain on other debt instruments measured at FVPL		**4,120**	5,073
Net loss on financial liabilities designated as at FVPL	(i)	**(11,271)**	–
Net gain on debt instruments measured at FVOCI		**750**	471
Net (loss)/gain on underlying assets and liabilities related to principal guaranteed wealth management products designated as at FVPL		**(748)**	36
Others		**(71)**	12
Total		**(7,312)**	5,793

(i) *Net loss on financial liabilities designated as at FVPL consists of the amount paid upon the maturity of structured deposits designated at FVPL.*

5 OTHER OPERATING INCOME

	Year ended 31 December	
	2020	2019
Insurance premium	**26,151**	22,938
Net (loss)/gain on foreign exchange	**(95)**	2,804
Government grant	**784**	824
Gain on disposal of property and equipment	**1,172**	1,017
Rental income	**950**	863
Others	**1,652**	2,247
Total	**30,614**	30,693

6 OPERATING EXPENSES

		Year ended 31 December	
		2020	2019
Staff costs	(1)	**123,345**	124,267
General operating and administrative expenses	(2)	**49,452**	48,246
Insurance benefits and claims		**27,873**	23,349
Depreciation and amortization		**19,551**	18,711
Tax and surcharges	(3)	**5,813**	5,688
Others		**3,863**	3,835
Total		**229,897**	224,096

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 OPERATING EXPENSES (Continued)

(1) Staff costs

	Year ended 31 December	
	2020	2019
Short-term employee benefits		
Salaries, bonuses, allowance and subsidies	**80,854**	79,255
Housing funds	**8,933**	8,524
Social insurance	**4,713**	5,450
Including: Medical insurance	**4,398**	4,902
Maternity insurance	**205**	407
Employment injury insurance	**110**	141
Labor union fees and staff education expenses	**3,613**	3,534
Others	**10,595**	10,044
Subtotal	**108,708**	106,807
Defined contribution benefits	**14,632**	17,399
Early retirement benefits	**5**	61
Total	**123,345**	124,267

(2) Included in general operating and administrative expenses is auditor's remuneration of RMB146 million for the year, consisting of RMB137 million for financial statements audit service and RMB9 million for non-audit professional service. (2019: RMB157 million for the year, consisting of RMB136 million for financial statements audit service and RMB21 million for non-audit professional service).

(3) From 1 May 2016, the Group is subject to value-added taxes on its income from credit business, fee income on financial services, income from insurance business and trading of financial products at 6%.

Pursuant to the "Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs" (Cai Shui [2016] No. 46), the Bank elected to adopt a simplified methodology to calculate value-added taxes at 3% on interest income derived from loans granted to farming households, rural enterprises and other rural institutions by county-level sub-branches included in the Bank's pilot programs of the Sannong Finance Division, including those under the Bank's provincial branches in provinces, autonomous regions, municipalities directly under the central government and municipalities with independent budgetary status as well as those under the Xinjiang Production and Construction Corps Branch.

City construction and maintenance tax is calculated at 1%, 5% or 7% of VAT for the Group's Domestic Operations.

Education surcharge is calculated at 3%, while local education surcharge is calculated at 2% of VAT for the Group's Domestic Operations.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB):*

		Year ended 31 December 2020				
Item		**Fees**	**Basic salaries and allowance**	**Contribution to retirement benefit schemes**	**Other benefits in kind (xiii)**	**Total**
Executive Directors						
Zhou Mubing	(i)	–	619	77	73	769
Zhang Qingsong	(ii)	–	619	77	73	769
Zhang Xuguang	(iii)	–	557	74	72	703
Independent Non-Executive Directors						
Xiao Xing		410	–	–	–	410
Wang Xinxin		380	–	–	–	380
Huang Zhenzhong		380	–	–	–	380
Ms. LEUNG KO May Yee		370	–	–	–	370
Liu Shouying		360	–	–	–	360
Non-Executive Directors						
Liao Luming		–	–	–	–	–
Li Qiyun		–	–	–	–	–
Li Wei		–	–	–	–	–
Wu Jiangtao		–	–	–	–	–
Zhu Hailin	(iv)	–	–	–	–	–
Supervisors						
Wang Jingdong		–	619	77	73	769
Xia Taili		50	–	–	–	50
Shao Lihong		50	–	–	–	50
Wu Gang		50	–	–	–	50
Li Wang		280	–	–	–	280
Zhang Jie		310	–	–	–	310
Liu Hongxia		300	–	–	–	300
Fan Jianqiang	(v)	–	–	–	–	–
Senior Management						
Zhan Dongsheng		–	557	74	72	703
Cui Yong		–	557	74	72	703
Xu Han	(vi)	–	325	50	42	417
Li Zhicheng		–	974	135	73	1,182
Han Guoqiang	(vii)	–	81	11	7	99
Executive Director resigned						
Zhang Keqiu	(viii)	–	511	66	66	643
Non-Executive Directors resigned						
Chen Jianbo	(ix)	–	–	–	–	–
Xu Jiandong	(x)	–	–	–	–	–
Supervisors resigned						
Wang Xingchun	(xi)	–	–	–	–	–
Senior Management resigned						
Zhou Wanfu	(xii)	–	244	32	15	291
Total		2,940	5,663	747	638	9,988

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): (Continued)*

(i) Zhou Mubing ceased to be Chairman of the Board of Directors and Executive Director effective 7 January 2021.

(ii) Zhang Qingsong was elected Vice Chairman of the Board of Directors and Executive Director effective 14 January 2020.

(iii) Zhang Xuguang was elected Executive Director effective 12 October 2020.

(iv) Zhu Hailin was elected Non-Executive Director effective 29 June 2020.

(v) Fan Jianqiang was elected Supervisor of the Shareholders Representative effective 27 November 2020.

(vi) Xu Han was elected Executive Vice President effective 12 October 2020.

(vii) Han Guoqiang was elected Secretary of the Board of Directors effective 3 November 2020.

(viii) Zhang Keqiu ceased to be Executive Director and Executive Vice President effective 30 November 2020.

(ix) Chen Jianbo ceased to be Non-Executive Director effective 29 June 2020.

(x) Xu Jiandong ceased to be Non-Executive Director effective 18 June 2020.

(xi) Wang Xingchun ceased to be Supervisor representing Shareholder effective 29 June 2020.

(xii) Zhou Wanfu ceased to be Secretary of the Board of Directors and the company secretary effective 24 March 2020.

(xiii) Other benefits in kind include the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities.

The total compensation packages for the above Executive Directors, Supervisors and Senior Management for the year ended 31 December 2020 have not yet been finalized in accordance with regulations of the relevant authorities in the PRC at the date of this consolidated financial statements. The final compensation will be disclosed in a separate announcement when determined.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): (Continued)*

		Year ended 31 December 2019 (Restated)				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xviii)	Total
Executive Directors						
Zhou Mubing		–	821	93	80	994
Zhang Keqiu	(i)	–	738	85	92	915
Independent Non-Executive Directors						
Xiao Xing		390	–	–	–	390
Wang Xinxin		367	–	–	–	367
Huang Zhenzhong		367	–	–	–	367
Ms. LEUNG KO May Yee	(ii)	145	–	–	–	145
Liu Shouying	(iii)	146	–	–	–	146
Non-Executive Directors						
Xu Jiandong		–	–	–	–	–
Chen Jianbo		–	–	–	–	–
Liao Luming		–	–	–	–	–
Li Qiyun		–	–	–	–	–
Li Wei	(iv)	–	–	–	–	–
Wu Jiangtao	(v)	–	–	–	–	–
Supervisors						
Wang Jingdong		–	821	93	80	994
Wang Xingchun		–	–	–	–	–
Xia Taili		50	–	–	–	50
Shao Lihong		50	–	–	–	50
Wu Gang	(vi)	12	–	–	–	12
Li Wang		280	–	–	–	280
Zhang Jie		310	–	–	–	310
Liu Hongxia		300	–	–	–	300
Senior Management						
Zhang Qingsong	(vii)	–	205	21	24	250
Zhang Xuguang	(viii)	–	62	7	7	76
Zhan Dongsheng	(ix)	–	677	75	123	875
Cui Yong	(x)	–	554	65	62	681
Li Zhicheng		–	1,946	147	79	2,172
Zhou Wanfu	(xi)	–	1,946	142	77	2,165

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): (Continued)*

		Year ended 31 December 2019 (Restated)				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xviii)	Total
Executive Director resigned						
Wang Wei	(xii)	–	677	86	74	837
Cai Dong	(xiii)	–	431	52	49	532
Non-Executive Directors resigned						
Hu Xiaohui	(xiv)	–	–	–	–	–
Wen Tiejun	(xv)	271	–	–	–	271
Yuan Tianfan	(xv)	252	–	–	–	252
Supervisors resigned						
Liu Chengxu	(xvi)	41	–	–	–	41
Senior Management resigned						
Gong Chao	(xvii)	–	61	9	11	81
Total		2,981	8,939	875	758	13,553

(i) Zhang Keqiu was elected Executive Director effective 1 April 2019.

(ii) Ms. Leung Ko May Yee was elected Independent Non-Executive Director effective 30 July 2019.

(iii) Liu Shouying was elected Independent Non-Executive Director effective 29 July 2019.

(iv) Li Wei was elected Non-Executive Director effective 21 May 2019.

(v) Wu Jiangtao was elected Non-Executive Director effective 29 July 2019.

(vi) Wu Gang was elected Supervisor of Employees Representative effective 9 October 2019.

(vii) Zhang Qingsong was elected Executive President effective 25 October 2019 and Vice Chairman of the Board of Directors and Executive Director effective 14 January 2020.

(viii) Zhang Xuguang was elected Executive Vice President effective 23 December 2019.

(ix) Zhan Dongsheng was elected Executive Vice President effective 29 April 2019.

(x) Cui Yong was elected Executive Vice President effective 10 May 2019.

(xi) Zhou Wanfu ceased to be Secretary of the Board of Directors and the company secretary effective 24 March 2020.

(xii) Wang Wei ceased to be Executive Director and Executive Vice President effective 28 November 2019.

(xiii) Cai Dong was elected to be Executive Vice President effective 10 May 2019 and Executive Director effective 28 June 2019, ceased to be Executive Director and Executive Vice President effective 14 October 2019.

(xiv) Hu Xiaohui ceased to be Non-Executive Director effective 9 January 2019.

(xv) Wen Tiejun and Francis Yuen Tian-fan ceased to be Independent Non-Executive Director effective 30 August 2019.

(xvi) Liu Chengxu ceased to be the Supervisor of Employees Representative effective 9 October 2019.

(xvii) Gong Chao ceased to be Secretary of the Party Discipline Committee effective 2 January 2019.

(xviii) Other benefits in kind include the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(2) Five individuals with the highest emoluments in the Group

(i) Of the five individuals with the highest emoluments, none of them are Directors, Supervisors or Senior Management whose emoluments are disclosed above. The emoluments of the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2020 and 31 December 2019 were as follows:

	Year ended 31 December	
	2020	2019
Basic salaries and allowance	**15**	13
Discretionary bonuses	**12**	14
Contribution to retirement benefit schemes and other	**1**	1
Total	**28**	28

(ii) The number of these five individuals whose emoluments fell within the following bands are as follows:

	Year ended 31 December	
	2020	2019
RMB4,500,001 to RMB5,000,000 yuan	**3**	2
RMB5,000,001 to RMB5,500,000 yuan	**–**	1
RMB5,500,001 to RMB6,000,000 yuan	**–**	–
RMB6,000,001 to RMB6,500,000 yuan	**1**	1
RMB6,500,001 to RMB7,000,000 yuan	**–**	–
RMB7,000,001 to RMB7,500,000 yuan	**–**	–
RMB7,500,001 to RMB8,000,000 yuan	**1**	1

For the years ended 31 December 2020 and 31 December 2019, no emolument was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. For the years ended 31 December 2020 and 31 December 2019, none of the five highest paid individuals waived any emolument.

(3) Other benefits and interests of Directors and Supervisors pursuant to the Hong Kong Companies Ordinance (Cap.622).

For the years ended 31 December 2020 and 31 December 2019, no emolument was paid by the Group to any of the Directors and Supervisors as an inducement to join or upon joining the Group or as a compensation for loss of office. Except for the Annuity Scheme and Pension Scheme (Note II 7 Employee Benefits), there were no other retirement benefits for Directors or Supervisors, or consideration provided to third parties for making available Directors' or Supervisors' services; and none of the Directors or Supervisors waived any emolument, or had material interests, whether directly or indirectly, in any material transactions, arrangements or contracts in relation to the Group's business for the years ended 31 December 2020 and 31 December 2019.

The Group enters into credit transactions with the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors at arm's length in the ordinary course of business. For the years ended 31 December 2020 and 31 December 2019 and as at 31 December 2020 and 31 December 2019, the respective balances of loans and advances from the Group to Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors were not significant. The Group did not provide any guarantee or security to the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors in respect of their loans, quasi-loans or credit transactions.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 CREDIT IMPAIRMENT LOSSES

	Year ended 31 December	
	2020	2019
Loans and advances to customers	**138,988**	131,833
Financial investments		
Debt instrument investments at amortized cost	**6,796**	301
Other debt instruments investments at fair value through other comprehensive income	**5,070**	985
Provision for guarantees and commitments	**10,575**	3,990
Placements with and loans to banks and other financial institutions	**1,419**	30
Deposits with banks and other financial institutions	**864**	514
Financial assets held under resale agreements	**936**	409
Others	**51**	543
Total	**164,699**	138,605

9 INCOME TAX EXPENSE

	Year ended 31 December	
	2020	2019
Current income tax		
— PRC Enterprise Income Tax	**58,220**	62,674
— Hong Kong Profits Tax	**664**	824
— Other jurisdictions	**(26)**	215
Subtotal	**58,858**	63,713
Deferred tax (Note IV 22)	**(10,208)**	(10,061)
Total	**48,650**	53,652

PRC Enterprise Income Tax is calculated at 25% of the estimated taxable profit for both years, and also includes supplementary PRC tax on Overseas Operations as determined in accordance with the relevant PRC income tax rules and regulations. Pre-tax deduction items of enterprise income tax are governed by the relevant tax regulations in Mainland China. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions.

The tax charges for the years ended 31 December 2020 and 31 December 2019 can be reconciled to the profit per the consolidated income statement as follows:

		Year ended 31 December	
		2020	2019
Profit before tax		**265,050**	266,576
Tax calculated at applicable PRC statutory tax rate of 25%		**66,263**	66,644
Tax effect of income not taxable for tax purpose	(1)	**(36,294)**	(31,575)
Tax effect of costs, expenses and losses not deductible for tax purpose		**20,061**	18,684
Tax effect of perpetual note interest expense		**(1,300)**	–
Effect of different tax rates in other jurisdictions		**(80)**	(101)
Income tax expense		**48,650**	53,652

(1) Non-taxable income primarily includes interest income from PRC treasury bonds and municipal government bonds.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 DIVIDENDS

		Year ended 31 December	
		2020	2019
Dividends on ordinary shares declared			
Cash dividend related to 2019	(1)	**63,662**	–
Cash dividend related to 2018	(2)	**–**	60,862
		63,662	60,862
Dividends on preference shares declared and paid	(3)	**4,328**	4,600
Interest on perpetual bonds declared and paid	(4)	**5,202**	–

(1) Distribution of final dividend for 2019

A cash dividend of RMB0.1819 per ordinary share related to 2019, amounting to RMB63,662 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2019 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 29 June 2020.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2020.

(2) Distribution of final dividend for 2018

A cash dividend of RMB0.1739 per ordinary share related to 2018, amounting to RMB60,862 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2018 as determined in accordance with the PRC GAAP, at the annual general meeting held on 30 May 2019.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2019.

(3) Distribution of dividend on preference shares for 2020

A cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares of 2019 to 2020 amounting to RMB2,200 million in total was approved at the Board of Directors' Meeting held on 10 January 2020 and distributed on 11 March 2020.

A cash dividend at the dividend rate of 5.32% per annum related to the first tranche of preference shares of 2019 to 2020 amounting to RMB2,128 million in total was approved at the Board of Directors' Meeting held on 3 July 2020 and distributed on 5 November 2020.

Distribution of dividend on preference shares for 2019

A cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares of 2018 to 2019 amounting to RMB2,200 million in total was approved at the Board of Directors' Meeting held on 11 January 2019 and distributed on 11 March 2019.

A cash dividend at the dividend rate of 6% per annum related to the first tranche of preference shares of 2018 to 2019 amounting to RMB2,400 million in total was approved at the Board of Directors' Meeting held on 30 August 2019 and distributed on 5 November 2019.

(4) Distribution of interest on perpetual bonds for 2020

Perpetual bonds listed in the statement of financial position refer to undated tier 1 capital bonds. An interest at the interest rate of 4.39% per annum related to the first tranche of perpetual bonds amounting to RMB3,732 million in total was declared on 17 August 2020 and distributed on 20 August 2020.

An interest at the interest rate of 4.20% per annum related to the second tranche of perpetual bonds amounting to RMB1,470 million in total was declared on 2 September 2020 and distributed on 7 September 2020.

(5) A final dividend of RMB0.1851 per ordinary share in respect of the year ended 31 December 2020 totaling RMB64,782 million has been proposed by the directors and is subject to approval by the ordinary equity holders in the annual general meeting.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is as follows:

	Year ended 31 December	
	2020	2019
Earnings:		
Profit for the year attributable to equity holders of the Bank	**215,925**	212,098
Less: profit for the year attributable to other equity instruments holders of the Bank	**(9,530)**	(4,600)
Profit for the year attributable to ordinary equity holders of the Bank	**206,395**	207,498
Number of shares:		
Weighted average number of ordinary shares in issue (in millions)	**349,983**	349,983
Basic and diluted earnings per share (RMB yuan)	**0.59**	0.59

For the years ended 31 December 2015 and 31 December 2014, the Bank issued non-cumulative preference shares, respectively, and the specific terms are included in Note IV 33 Other equity instruments.

For the year ended 31 December 2020 and 31 December 2019, the Bank issued non-cumulative undated tier 1 capital bonds, respectively, and the specific terms are included in Note IV 33 Other equity instruments.

For the purpose of calculating basic earnings per share, cash dividends of RMB4,328 million of non-cumulative preference shares declared in respect of the year of 2020 and interests of RMB5,202 million of non-cumulative undated tier 1 capital bonds in respect of 2019 were deducted from the profit for the year attributable to equity holders of the Bank (2019: cash dividends of RMB4,600 million of non-cumulative preference shares).

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the years ended 31 December 2020 and 31 December 2019, and therefore the conversion feature of preference shares has no dilutive effect on earnings per share calculation.

12 CASH AND BALANCES WITH CENTRAL BANKS

		As at 31 December	
		2020	2019
Cash		**76,281**	92,928
Mandatory reserve deposits with central banks	(1)	**2,126,330**	2,018,692
Surplus reserve deposits with central banks	(2)	**40,494**	393,607
Other deposits with central banks	(3)	**193,142**	193,631
Subtotal		**2,436,247**	2,698,858
Accrued interest		**1,028**	1,037
Total		**2,437,275**	2,699,895

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 CASH AND BALANCES WITH CENTRAL BANKS (Continued)

(1) *Reserve deposits with central banks include mandatory reserve deposits and surplus reserve deposits.*

The Group places mandatory reserve deposits with the PBOC and overseas regulatory bodies. These include RMB reserve deposits and foreign currency reserve deposits. According to the requirements of "Notice on Reducing Deposit Reserve Ratio for Financial Institutions issued by the People's Bank of China"(Yinfa [2020] No.1), RMB deposit reserve ratio for financial institutions is reduced by 0.5% from 6 January 2020.

For Domestic Operations of the Bank which meet the requirements of "Notice on Performance Appraisal Results Of the Sannong Banking Operations of Agricultural Bank of China Limited for 2020 issued by the People's Bank of China" (Yinbanfa [2020] No. 39), effective from 25 March 2020 and "Notice on Performance Appraisal Results Of the Sannong Banking Operations in Hubei province of Agricultural Bank of China Limited for 2020 issued by the People's Bank of China"(Yinbanfa [2020] No. 58), effective from 6 May 2020, RMB mandatory reserve deposits with the PBOC are based on 9.0% of qualified RMB deposits (31 December 2019: 9.5%). For the remaining Domestic Operations of the Bank, RMB mandatory reserve deposits are based on 11.0% of qualified RMB deposits (31 December 2019: 11.5%). For the overseas participating banks and clearing banks with eligible RMB deposits, RMB mandatory reserve deposits are based on 11.0% of qualified RMB deposits (31 December 2019: 11.5%). Foreign currency mandatory reserve deposits are based on 5% (31 December 2019: 5%) of qualified foreign currency deposits from customers.

(2) *Surplus reserve deposits represent deposits maintained with the PBOC in addition to the mandatory reserve deposits and mainly for the purpose of clearing.*

(3) *Other deposits with central banks primarily represent fiscal deposits and foreign exchange risk reserve placed with the PBOC that are not available for use in the Group's daily operations. Fiscal deposits are non-interest bearing from government, and the interest rate for foreign exchange risk reserve is currently set at zero. From 12 October 2020, the foreign exchange risk reserve rate was adjusted from 20% to 0 ,according to the notice of "The Decision to Adjust the Foreign Exchange Risk Reserves rate to 0" issued by PBOC on 10 October 2020.*

13 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2020	2019
Deposits with:		
Domestic banks	**391,366**	185,905
Other domestic financial institutions	**13,511**	14,292
Overseas banks	**27,826**	34,493
Subtotal	**432,703**	234,690
Accrued interest	**3,387**	2,118
Allowance for impairment losses	**(1,905)**	(1,066)
Deposits with banks and other financial institutions, net	**434,185**	235,742

As at 31 December 2020, the carrying amount of deposits with banks and other financial institutions which have been pledged as security was RMB14,098 million (31 December 2019: RMB14,670 million). These deposits were mainly security deposits pledged with clearing house and exchanges.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 PLACEMENTS WITH AND LOANS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2020	2019
Placements with and loans to:		
Domestic banks	**148,136**	162,772
Other domestic financial institutions	**219,887**	252,498
Overseas banks and other financial institutions	**179,927**	106,047
Subtotal	**547,950**	521,317
Accrued interest	**1,750**	3,289
Allowance for impairment losses	**(2,752)**	(1,423)
Placements with and loans to banks and other financial institutions, net	**546,948**	523,183

15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group primarily enters into foreign exchange rate, interest rate and precious metal derivative contracts related to trading, asset and liability management, and customer initiated transactions.

The contractual/notional amounts and fair values of the derivative financial instruments entered into by the Group are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognized on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregated fair values of derivative financial assets and liabilities can fluctuate significantly.

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. The Group did not offset these financial assets and financial liabilities on a net basis. As at 31 December 2020 and 31 December 2019, the Group does not hold any other financial instruments, other than derivatives, that are subject to master netting arrangements or similar agreements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

	31 December 2020		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	**2,411,639**	**54,466**	**(57,312)**
Currency options	**70,259**	**3,721**	**(444)**
Subtotal		**58,187**	**(57,756)**
Interest rate derivatives			
Interest rate swaps	**352,044**	**1,009**	**(4,357)**
Precious metal contracts and others	**155,555**	**2,741**	**(3,169)**
Total derivative financial assets and liabilities		**61,937**	**(65,282)**

	31 December 2019		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	2,751,623	23,588	(19,835)
Currency options	108,691	540	(547)
Subtotal		24,128	(20,382)
Interest rate derivatives			
Interest rate swaps	225,976	340	(1,676)
Precious metal contracts and others	95,328	476	(7,490)
Total derivative financial assets and liabilities		24,944	(29,548)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

Credit risk weighted amount for derivative transaction counterparties represents the counterparty credit risk associated with derivative transactions and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC which was effective from 1 January 2013 and "Measurement Rule of Counterparty Default Risk Weighted Assets on Derivatives" issued by the CBIRC which was effective from 1 January 2019,and is dependent on, among other factors, creditworthiness of customers and maturity characteristics of each type of contract. As at 31 December 2020 and 31 December 2019, the credit risk weighted amount for derivative transaction counterparty was measured under the Internal Ratings — Based approach.

	As at 31 December	
	2020	2019
Counterparty credit default risk-weighted assets	**74,562**	79,547
Credit value adjustment risk-weighted assets	**11,905**	10,939
Total	**86,467**	90,486

(1) Fair value hedges

The following designated fair value hedging instruments are included in the derivative financial instruments disclosed above.

	31 December 2020		
	Notional amount	**Fair values**	
		Assets	**Liabilities**
Interest rate swaps	**63,256**	**18**	**(2,860)**

	30 December 2019		
	Notional amount	Fair values	
		Assets	Liabilities
Interest rate swaps	76,388	24	(1,195)

The Group uses interest rate swaps to hedge against changes arising from changes in interest rates in fair value of loans and advances to customers, other debt instrument investments at fair value through other comprehensive income.

The Group's net (losses)/gains on fair value hedges are as follow:

	Year ended 31 December	
	2020	2019
Net (losses)/gains on		
— hedging instruments	**(1,996)**	(1,881)
— hedged items	**1,915**	1,568

The gains and losses arising from the ineffective portion of fair value hedges were immaterial in 2020 and 2019.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

(1) *Fair value hedges* (Continued)

The following table shows maturity details with notional amount of hedging instruments disclosed above:

	Fair value hedges					
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
31 December 2020	**757**	**1,747**	**9,914**	**39,239**	**11,599**	**63,256**
31 December 2019	358	2,834	7,480	50,927	14,789	76,388

The following table sets out the details of the hedged items covered by the Group's fair value hedging strategies:

	31 December 2020				
	Carrying amount of hedged items		**Accumulated amount of fair value adjustments on the hedged items**		**Line items in the statement of financial position**
	Assets	**Liabilities**	**Assets**	**Liabilities**	
Bonds	**63,801**	**–**	**–**	**–**	**Other debt instrument investments at fair value through other comprehensive income**
Loans	**4,595**	**–**	**167**	**–**	**Loans and advances to customers**
Total	**68,396**	**–**	**167**	**–**	

	31 December 2019				
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items		Line items in the statement of financial position
	Assets	Liabilities	Assets	Liabilities	
Bonds	73,117	–	–	–	Other debt instrument investments at fair value through other comprehensive income
Loans	5,552	–	(51)	–	Loans and advances to customers
Total	78,669	–	(51)	–	

(2) *Cash flow hedges*

The Group uses interest rate swaps to hedge against exposures to cash flow variability primarily from interest rate risks of debt securities issued. The maturities of hedging instruments and hedged items are both within one year.

In 2020, the Group's net gains from the cash flow hedge of RMB24 million was recognized in other comprehensive income (2019: net losses of RMB23 million) and the gains and losses arising from the ineffective portion of cash flow hedge were immaterial.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 31 December	
	2020	2019
Analyzed by collateral type:		
Debt securities	**761,081**	681,891
Bills	**56,801**	27,958
Subtotal	**817,882**	709,849
Accrued interest	**866**	308
Allowance for impairment losses	**(2,542)**	(1,606)
Financial assets held under resale agreements, net	**816,206**	708,551

The collateral received in connection with financial assets held under resale agreement is disclosed in Note IV 42 Contingent Liabilities and Commitments — Collateral.

17 LOANS AND ADVANCES TO CUSTOMERS

17.1 Analyzed by measurement basis

		As at 31 December	
		2020	2019
Measured at amortized cost	(1)	**13,974,384**	12,279,377
Measured at fair value through other comprehensive income	(2)	**577,997**	540,387
Measured at fair value through profit or Loss	(3)	**52**	–
Total		**14,552,433**	12,819,764

(1) Measured at amortized cost:

	As at 31 December	
	2020	2019
Corporate loans and advances		
Loans and advances	**8,339,235**	7,381,532
Personal loans and advances	**6,218,837**	5,406,831
Subtotal	**14,558,072**	12,788,363
Accrued interest	**34,321**	31,592
Allowance for impairment losses	**(618,009)**	(540,578)
Carrying amount of loans and advances to customers measured at amortized cost	**13,974,384**	12,279,377

(2) Measured at fair value through other comprehensive income:

	As at 31 December	
	2020	2019
Corporate loans and advances		
Loans and advances	**188,522**	118,997
Discounted bills	**389,475**	421,390
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	**577,997**	540,387

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

17.1 Analyzed by measurement basis (Continued)

(3) *Measured at fair value through profit or loss:*

	As at 31 December	
	2020	2019
Corporate loans and advances	**52**	–

17.2 Analyzed by ECL assessment method

	Year ended 31 December 2020			
	Stage I	Stage II	Stage III (i)	
	12m ECL	Lifetime ECL		Total
Gross loans and advances measured at amortized cost (accrued interest not included)	**13,995,576**	**325,383**	**237,113**	**14,558,072**
Allowance for impairment losses	**(397,768)**	**(60,700)**	**(159,541)**	**(618,009)**
Loans and advances to customers, net (accrued interest not included)	**13,597,808**	**264,683**	**77,572**	**13,940,063**
Loans and advances measured at fair value through other comprehensive income	**577,972**	**25**	**–**	**577,997**
Allowance for impairment losses of loans and advances to customers measured at fair value through other comprehensive income	**(13,195)**	**(2)**	**–**	**(13,197)**

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III (i)	
	12m ECL	Lifetime ECL		Total
Gross loans and advances measured at amortized cost (accrued interest not included)	12,280,857	320,316	187,190	12,788,363
Allowance for impairment losses	(351,550)	(57,693)	(131,335)	(540,578)
Loans and advances to customers, net (accrued interest not included)	11,929,307	262,623	55,855	12,247,785
Loans and advances measured at fair value through other comprehensive income	540,068	299	20	540,387
Allowance for impairment losses of loans and advances to customers measured at fair value through other comprehensive income	(12,495)	(27)	(15)	(12,537)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.2 Analyzed by ECL assessment method (Continued)

The expected credit loss ("ECL") for corporate loans and advances in stage I and stage II, as well as all personal loans and advances, were measured in accordance with the risk parameters modelling method. The ECL for corporate loans and advances in Stage III were calculated using the discounted cash flow method. For details, see Note IV 44.1 Credit Risk.

(i) At 31 December 2020, the Group's exposure of credit-impaired Stage III loans and advances covered by collateral and pledge of the Group was RMB43,840 million (31 December 2019: the exposure of impaired loans and advances covered by collateral and pledge of the Group was RMB30,745 million).

17.3 Analyzed by movements in loss allowance

The movements of loss allowance is mainly affected by:

– Transfers between stages due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired;

– Allowance for new financial instruments recognized;

– Remeasurement includes the impact of changes in model assumptions, updates of model parameters, changes in probability of default and loss given default; changes in ECL due to transfer of financial assets between stages; changes in ECL due to unwinding of discount over time; changes in foreign exchange translations for assets denominated in foreign currencies and other movements;

– The reversal of allowances caused by repayment, write-offs and financial assets transferred out.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.3 Analyzed by movements in loss allowance (Continued)

The following table shows the impact of above factors on the allowance for impairment losses:

	Year ended 31 December 2020			
	Stage I	Stage II	Stage III	
Corporate loans and advances	**12m ECL (i)**	**Lifetime ECL (ii)**		**Total**
1 January 2020	249,600	53,391	110,480	413,471
Transfer:				
Stage I to stage II	(9,141)	9,141	–	–
Stage II to stage III	–	(24,807)	24,807	–
Stage II to stage I	3,555	(3,555)	–	–
Stage III to stage II	–	2,875	(2,875)	–
Originated or purchased financial assets	98,077	–	–	98,077
Remeasurement	(4,839)	23,299	63,387	81,847
Repayment and transfer out	(54,703)	(6,645)	(23,566)	(84,914)
Write-offs	–	–	(36,599)	(36,599)
31 December 2020	282,549	53,699	135,634	471,882

	Year ended 31 December 2020			
	Stage I	Stage II	Stage III	
Personal loans and advances	**12m ECL (iii)**	**Lifetime ECL (iv)**		**Total**
1 January 2020	114,445	4,329	20,870	139,644
Transfer:				
Stage I to stage II	(2,535)	2,535	–	–
Stage II to stage III	–	(6,305)	6,305	–
Stage II to stage I	755	(755)	–	–
Stage III to stage II	–	523	(523)	–
Originated or purchased financial assets	55,463	–	–	55,463
Remeasurement	644	11,846	18,501	30,991
Repayment and transfer out	(40,358)	(5,170)	(8,470)	(53,998)
Write-offs	–	–	(12,776)	(12,776)
31 December 2020	128,414	7,003	23,907	159,324

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.3 Analyzed by movements in loss allowance (Continued)

The following table shows the impact of above factors on the allowance for impairment losses (Continued):

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III	
Corporate loans and advances	12m ECL (v)	Lifetime ECL (vi)		Total
1 January 2019	191,146	63,973	128,611	383,730
Transfer:				
Stage I to stage II	(6,261)	6,261	–	–
Stage II to stage III	–	(19,356)	19,356	–
Stage II to stage I	5,948	(5,948)	–	–
Stage III to stage II	–	3,390	(3,390)	–
Originated or purchased financial assets	72,673	–	–	72,673
Remeasurement	25,292	16,147	40,776	82,215
Repayment and transfer out	(39,198)	(11,076)	(35,664)	(85,938)
Write-offs	–	–	(39,209)	(39,209)
31 December 2019	249,600	53,391	110,480	413,471

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III	
Personal loans and advances	12m ECL (vii)	Lifetime ECL (viii)		Total
1 January 2019	78,018	4,491	20,373	102,882
Transfer:				
Stage I to stage II	(1,530)	1,530	–	–
Stage II to stage III	–	(5,190)	5,190	–
Stage II to stage I	973	(973)	–	–
Stage III to stage II	–	482	(482)	–
Originated or purchased financial assets	50,904	–	–	50,904
Remeasurement	12,311	5,129	13,406	30,846
Repayment and transfer out	(26,231)	(1,140)	(5,428)	(32,799)
Write-offs	–	–	(12,189)	(12,189)
31 December 2019	114,445	4,329	20,870	139,644

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.3 Analyzed by movements in loss allowance (Continued)

(i) *In 2020, the provision rate of the Group's corporate loans and advances in Stage I remained stable. The changes of the Group's loss allowance of corporate loans and advances in Stage I were mainly driven by a net increase of nearly 13% in the corresponding gross amount.*

(ii) *In 2020, the changes of the Group's loss allowance of corporate loans and advances in Stage II were mainly driven by a small increase of the provision rate of the Group's corporate loans and advances in Stage II. There was no significant change in the gross amount of Stage II corporate loans and advances as of 31 December 2020 compared to 1 January 2020.*

In 2020, the changes of Group's loss allowance of corporate loans and advances in Stage III were mainly driven by both the net transfer between stages which led to a net increase of nearly 28% in the corresponding gross amount, and the net transfer in from Stage II and subsequent remeasurement. This impact was partially netted off by the repayment, transfer out and write-offs of Stage III corporate loans and advances.

(iii) *In 2020, the provision rate of the Group's personal loans and advances in Stage I remained stable. The changes of the Group's loss allowance of personal loans and advances in Stage I were mainly driven a net increase of nearly 15% in the corresponding gross amount.*

(iv) *In 2020, the changes in loss allowance of the Group's personal loans and advances in Stage II were mainly driven by both the net transfer between Stages which led to a net increase of nearly 24% in the corresponding gross amount and the net transfer in from Stage I and subsequent remeasurement. This impact was netted off partially by the repayment of Stage II personal loans and advances.*

In 2020, the changes in loss allowance of the Group's personal loans and advances in Stage III were mainly driven by both the net transfer between Stages which led to a net increase of nearly 21% in the corresponding gross amount and the net transfer in from Stage II and subsequent remeasurement. This impact was netted off partially by the repayment, transfer out and write-offs of Stage III personal loans and advances.

(v) *In 2019, the changes of the Group's loss allowance of corporate loans and advances in Stage I were mainly driven by both a net increase of nearly 11% in the corresponding gross amount and an increase in provision rate.*

(vi) *In 2019, the provision rate of the Group's corporate loans and advances in Stage II remains stable. The changes of the Group's loss allowance of corporate loans and advances in Stage II were mainly driven by a net decrease of nearly 13% in the corresponding gross amount.*

In 2019, the changes of the Group's corporate loans and advances in Stage III were mainly driven by the net transfer in from Stage II and subsequent remeasurement. This impact was netted off by the repayment, transfer out and write-offs of Stage III corporate loans and advances. There was no significant change in the gross amount of Stage III corporate loans and advances as of 31 December 2019 compared to 1 January 2019.

(vii) *In 2019, the changes of the Group's loss allowance of personal loans and advances in Stage I were mainly driven by both a net increase of nearly 16% in the corresponding gross amount and an increase in provision rate.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.3 Analyzed by movements in loss allowance (Continued)

(viii) *In 2019, the provision rate of the Group's personal loans and advances in Stage II remained stable. There was no significant change in the gross amount of Stage II personal loans and advances as of 31 December 2019 compared to 1 January 2019. Transfer between stages led to net increase in the gross amount of personal loans and advances in Stage II, this was mainly driven by the net transfer in from Stage I and the transferred amount was approximately 1% of the beginning balance of Stage I personal loans and advances. The impact on the loss allowances for the gross amount increase due to transfer between stages was partially netted off by the transfer to Stage III and the repayment of Stage II personal loans and advances. The transferred amount to Stage III was nearly 70% of the Stage II balances as of 1 January 2019. Repayment amount of Stage II personal loans and advances was about 20% of the Stage II balances as of 1 January 2019.*

In 2019, the changes in loss allowance of the Group's personal loans and advances in Stage III were mainly driven by the net transfer in from Stage II and subsequent remeasurement. This impact was partially netted off by the repayment, transfer out and write-offs of Stage III personal loans and advances. There was no significant change in the gross amount of Stage III personal loans and advances as of 31 December 2019 compared to 1 January 2019.

18 FINANCIAL INVESTMENTS

		As at 31 December	
		2020	2019
Financial assets at fair value through profit or loss	18.1	**583,069**	801,361
Debt instrument investments at amortized cost	18.2	**5,684,220**	4,946,741
Other debt instrument and other equity investments at fair value through other comprehensive income	18.3	**1,555,370**	1,674,828
Total		**7,822,659**	7,422,930

18.1 Financial assets at fair value through profit or loss

		As at 31 December	
		2020	2019
Financial assets held for trading	(1)	**223,960**	240,281
Other financial assets at fair value through profit or loss	(2)	**260,240**	216,052
Financial assets designated at fair value through profit or loss	(3)	**98,869**	345,028
Total		**583,069**	801,361
Analyzed as:			
Listed in Hong Kong		**4,613**	3,695
Listed outside Hong Kong	(i)	**390,444**	481,884
Unlisted		**188,012**	315,782
Total		**583,069**	801,361

(i) *Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.1 Financial assets at fair value through profit or loss (Continued)

(1) Financial assets held for trading

	As at 31 December	
	2020	2019
Debt securities issued by:		
Governments	**7,904**	10,371
Public sector and quasi-governments	**49,764**	45,231
Financial institutions	**79,243**	102,650
Corporates	**45,614**	43,207
Subtotal	**182,525**	201,459
Precious metal contracts	**21,959**	29,132
Equity	**4,944**	2,354
Fund	**14,532**	7,336
Total	**223,960**	240,281

(2) Other financial assets at fair value through profit or loss (ii)

	As at 31 December	
	2020	2019
Debt securities issued by:		
Public sector and quasi-governments	**25,372**	19,434
Financial institutions	**106,820**	72,334
Corporates	**1,816**	5,724
Subtotal	**134,008**	97,492
Equity	**97,401**	95,183
Fund and others	**28,831**	23,377
Total	**260,240**	216,052

(ii) Other financial assets at fair value through profit or loss refer to financial assets that do not qualify for measurement at AC or FVOCI and are not held for trading, including bond investments, equity interests, funds, trust plans and asset management products of the Group.

(3) Financial assets designated at fair value through profit or loss (iii)

	As at 31 December	
	2020	2019
Debt securities issued by:		
Governments	**9,440**	17,137
Public sector and quasi-governments	**18,071**	19,790
Financial institutions	**32,456**	147,389
Corporates	**3,899**	27,334
Subtotal	**63,866**	211,650
Deposits with banks and other financial institutions	**–**	28,207
Placements with and loans to banks and other financial institutions	**27,935**	104,184
Others	**7,068**	987
Total	**98,869**	345,028

(iii) Financial assets designated at fair value through profit or loss mainly include the financial asset invested by the wealth management products ("WMPs") with principal guaranteed by the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.2 Debt instrument investments at amortized cost

		As at 31 December	
		2020	2019
Debt securities issued by:			
Governments		**3,545,856**	2,755,256
Public sector and quasi-governments		**1,311,556**	1,278,027
Financial institutions		**204,310**	302,220
Corporates		**129,738**	124,558
Subtotal of debt securities		**5,191,460**	4,460,061
Receivable from the MOF	(i)	**290,891**	290,891
Special government bonds	(ii)	**93,348**	93,352
Others	(iii)	**14,413**	16,791
Subtotal		**5,590,112**	4,861,095
Accrued interest		**110,212**	95,134
Allowance for impairment losses		**(16,104)**	(9,488)
Debt instrument investments at amortized cost, net		**5,684,220**	4,946,741
Analyzed as:			
Listed in Hong Kong		**19,630**	17,851
Listed outside Hong Kong	(iv)	**5,304,920**	4,567,976
Unlisted		**359,670**	360,914
Total		**5,684,220**	4,946,741

(i) The Group received a notice from the MOF in January 2020, clarifying that from 1 January 2020, the interest rate of the unpaid payments will be verified year by year based on the rate of return of the five-year treasury bond of the previous year.

(ii) Special government bond refers to the non-transferable bond issued by the MOF in 1998 in the aggregated principal amount of RMB93.3 billion to the Predecessor Entity for capital replenishment. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum, starting from 1 December 2008.

(iii) Other debt instruments classified as receivables are primarily related to investment in unconsolidated structured entities held by the Group (Note IV 41(2)).

(iv) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.2 Debt instrument investments at amortized cost (Continued)

(1) Analyzed by assessment method of ECL

	Year ended 31 December 2020			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
Gross debt instrument investments at amortized cost	5,697,187	2,064	1,073	5,700,324
Allowance for impairment losses	(14,850)	(190)	(1,064)	(16,104)
Debt instrument investments at amortized cost, net	5,682,337	1,874	9	5,684,220

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
Gross debt instrument investments at amortized cost	4,953,832	1,196	1,201	4,956,229
Allowance for impairment losses	(8,409)	(32)	(1,047)	(9,488)
Debt instrument investments at amortized cost, net	4,945,423	1,164	154	4,946,741

Debt instrument investments at amortized cost in stage II and stage III mainly included financial institutions bond, corporates bond and other debt instruments investments.

(2) Analyzed by movements in loss allowance (i)

	Year ended 31 December 2020			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
1 January 2020	8,409	32	1,047	9,488
Transfer:				
Stage I transfer to stage II	(33)	33	–	–
Originated or purchased financial assets	4,321	–	–	4,321
Remeasurement	3,295	126	144	3,565
Maturities or transfer out	(1,142)	(1)	–	(1,143)
Write-offs	–	–	(127)	(127)
31 December 2020	14,850	190	1,064	16,104

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.2 Debt instrument investments at amortized cost (Continued)

(2) Analyzed by movements in loss allowance (i) (Continued)

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
1 January 2019	6,691	236	2,260	9,187
Transfer:				
Stage I transfer to stage II	(29)	29	–	–
Stage I transfer to stage III	(382)	–	382	–
Originated or purchased financial assets	1,832	–	–	1,832
Remeasurement	1,534	3	4	1,541
Maturities or transfer out	(1,237)	(236)	(1,599)	(3,072)
31 December 2019	8,409	32	1,047	9,488

(i) As at 31 December 2020, the increases of the Group's loss allowance of debt instrument investments at amortized cost were mainly due to the increase of debt instrument investments and the remeasurement of remained debt instrument investments in the year. The decreases of the Group's loss allowance of debt instrument investments at amortized cost were mainly due to maturities or transfer out of debt instrument investments.

18.3 Other debt instrument and other equity investments at fair value through other comprehensive income

		Year ended 31 December 2020			
		Amortized cost of debt instruments/ cost of equity instruments	**Fair value**	**Cumulative amount of change in fair value that is accrued to other comprehensive income**	**Cumulative amount of impairment**
Debt instruments	(1)	**1,537,987**	**1,551,439**	**13,452**	**(10,074)**
Equity instruments	(2)	**2,784**	**3,931**	**1,147**	**N/A**
Total		**1,540,771**	**1,555,370**	**14,599**	**(10,074)**

		Year ended 31 December 2019			
		Amortized cost of debt instruments/ cost of equity instruments	Fair value	Cumulative amount of change in fair value that is accrued to other comprehensive income	Cumulative amount of impairment
Debt instruments	(1)	1,650,974	1,671,746	20,772	(6,897)
Equity instruments	(2)	2,050	3,082	1,032	N/A
Total		1,653,024	1,674,828	21,804	(6,897)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.3 Other debt instrument and other equity investments at fair value through other comprehensive income (Continued)

(1) Debt instruments

(a) Analyzed by measurement basis

		As at 31 December	
		2020	2019
Debt securities issued by :			
Governments		**702,202**	744,035
Public sector and quasi-governments		**242,345**	247,527
Financial institutions		**453,176**	478,172
Corporates		**119,079**	165,270
Subtotal		**1,516,802**	1,635,004
Others	(i)	**18,902**	18,556
Subtotal of debt instruments		**1,535,704**	1,653,560
Accrued interest		**15,735**	18,186
Total		**1,551,439**	1,671,746
Analyzed as:			
Listed in Hong Kong		**102,413**	107,477
Listed outside Hong Kong		**1,399,150**	1,499,316
Unlisted		**49,876**	64,953
Total		**1,551,439**	1,671,746

(i) Others primarily include investments in unconsolidated structured entities held by the Group (Note IV 41(2)), such as trust investment plans and debt investment plans.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.3 Other debt instrument and other equity investments at fair value through other comprehensive income (Continued)

(1) Debt instruments (Continued)

(b) Analyzed by assessment method of ECL

	Year ended 31 December 2020			
	Stage I	**Stage II**	**Stage III**	
	12m ECL	**Lifetime ECL**		**Total**
Other debt instruments at fair value through other comprehensive income	**1,545,343**	**6,030**	**66**	**1,551,439**
Allowance for impairment losses	**(9,536)**	**(432)**	**(106)**	**(10,074)**

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
Other debt instruments at fair value through other comprehensive income	1,671,525	–	221	1,671,746
Allowance for impairment losses	(6,874)	–	(23)	(6,897)

Other debt instruments at fair value through other comprehensive income in stage II and stage III mainly included financial institutions bond corporates bond and financial institutions bond.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.3 Other debt instrument and other equity investments at fair value through other comprehensive income (Continued)

(1) Debt instruments (Continued)

(c) Analyzed by movements in loss allowance (ii)

	Year ended 31 December 2020			
	Stage I	**Stage II**	**Stage III**	
	12m ECL	**Lifetime ECL**		**Total**
1 January 2020	**6,874**	**–**	**23**	**6,897**
Transfer:				
stage I transfer to stage II	**(211)**	**211**	**–**	**–**
Originated or purchased financial assets	**4,055**	**–**	**–**	**4,055**
Remeasurement	**1,029**	**221**	**90**	**1,340**
Maturities or transfer out	**(2,211)**	**–**	**(7)**	**(2,218)**
31 December 2020	**9,536**	**432**	**106**	**10,074**

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
1 January 2019	5,720	552	55	6,327
Transfer:				
stage II transfer to stage I	26	(26)	–	–
Originated or purchased financial assets	2,129	–	–	2,129
Remeasurement	186	–	23	209
Maturities or transfer out	(1,187)	(526)	(55)	(1,768)
31 December 2019	6,874	–	23	6,897

(ii) As at 31 December 2020, the increases of the Group's loss allowance of other debt instrument investments at fair value through other comprehensive income were mainly due to the increase of debt instrument investments and the remeasurement of remained debt instrument investments in the year. The decreases of the Group's loss allowance of other debt instrument investments at fair value through other comprehensive income were mainly due to maturities or transfer out of debt instrument investments.

(2) Equity instruments

	As at 31 December	
	2020	2019
Other financial institutions	**3,811**	2,878
Other enterprises	**120**	204
Total	**3,931**	3,082

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 INVESTMENT IN SUBSIDIARIES AND STRUCTURED ENTITIES

(1) Investment in subsidiaries

The following are the principal subsidiaries of the Group as at 31 December 2020:

Name of entity		Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
China Agricultural Finance Co., Ltd.		1 November 1988	Hong Kong, PRC	HKD588,790,000	100.00	100.00	Investment holding
ABC International Holdings Limited		11 November 2009	Hong Kong, PRC	HKD4,113,392,450	100.00	100.00	Investment holding
ABC Financial Leasing Co., Ltd.		29 September 2010	Shanghai, PRC	RMB9,500,000,000	100.00	100.00	Financial leasing
Agricultural Bank of China (UK) Limited		29 November 2011	London, United Kingdom	USD100,000,002	100.00	100.00	Banking
ABC-CA Fund Management Co., Ltd.		18 March 2008	Shanghai, PRC	RMB1,750,000,001	51.67	51.67	Fund management
ABC Hexigten Rural Bank Limited Liability Company		12 August 2008	Inner Mongolia, PRC	RMB19,600,000	51.02	51.02	Banking
ABC Hubei Hanchuan Rural Bank Limited Liability Company	(i)	12 August 2008	Hubei, PRC	RMB31,000,000	50.00	66.67	Banking
ABC Jixi Rural Bank Limited Liability Company		25 May 2010	Anhui, PRC	RMB29,400,000	51.02	51.02	Banking
ABC Ansai Rural Bank Limited Liability Company		30 March 2010	Shaanxi, PRC	RMB40,000,000	51.00	51.00	Banking
ABC Zhejiang Yongkang Rural Bank Limited Liability Company		20 April 2012	Zhejiang, PRC	RMB210,000,000	51.00	51.00	Banking
ABC Xiamen Tong'an Rural Bank Limited Liability Company	(ii)	24 May 2012	Fujian, PRC	RMB150,000,000	51.00	51.00	Banking
ABC Life Insurance Co., Ltd.	(iii)	19 December 2005	Beijing, PRC	RMB2,949,916,475	51.00	51.00	Life insurance
Agricultural Bank of China (Luxembourg) Limited		26 November 2014	Luxembourg, Luxembourg	EUR20,000,000	100.00	100.00	Banking
Agricultural Bank of China (Moscow) Limited		23 December 2014	Moscow, Russia	RUB7,556,038,271	100.00	100.00	Banking
ABC Financial Asset Investment Co., Ltd.		1 August 2017	Beijing, PRC	RMB10,000,000,000	100.00	100.00	Debt-to-equity swap and related services
Agricultural Bank of China Wealth Management Co., Ltd.		25 July 2019	Beijing, PRC	RMB12,000,000,000	100.00	100.00	Wealth Management

During the year ended 31 December 2020 and 31 December 2019, there were no changes in the proportion of equity interest or voting rights the Group held in its subsidiaries.

(i) Two of the three directors on the board of ABC Hubei Hanchuan Rural Bank Limited Liability Company were appointed by the Bank. The Bank concluded that it has effective control over and has included this entity in its consolidation scope.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 INVESTMENT IN SUBSIDIARIES AND STRUCTURED ENTITIES (Continued)

(1) *Investment in subsidiaries* (Continued)

(ii) On 24 May 2020, ABC Xiamen Tong'an Rural Bank Limited Liability Company increased paid-in capital of RMB50 million from retained earnings, the proportion of equity interest and voting rights the Group held remained at 51%.

(iii) On 31 December 2012, the Bank acquired 51% of the issued share capital of Jiahe Life Insurance Co., Ltd. and renamed it as ABC Life Insurance Co., Ltd. ("ABC Life Insurance"). The Group recognized goodwill of RMB1,381 million as a result of this acquisition. During the year ended 31 December 2016, the Group and other investors contributed additional capital totalling RMB3,761 million to ABC Life Insurance, comprising registered capital of RMB917 million and capital reserve of RMB2,844 million. After the capital injection, the proportion of equity interest and voting rights the Group held in ABC Life Insurance remained at 51%.

The Bank tests the impairment of goodwill annually. When performing the impairment test, the Bank compares the carrying amount of the assets (including goodwill and the value of the mergers and acquisitions after deduction of amortization) with the recoverable amount. The excess of carrying amount over recoverable amount is recognized in profit or loss of the current period.

The recoverable amount of the assets is based on adjusted net assets, value of in-force business, value of one year of new business, new business multiplier, and other data approved by the management of ABC Life Insurance. The actuarial valuation method is applied and the risk discount rate, return on investment, valuation discount rate, and other assumptions adopted to forecast cash flows respectively reflect the specific risks associated with them.

As at 31 December 2020 and 31 December 2019, there was no objective evidence noted for any goodwill impairment, and no impairment loss was recognized.

(2) *Structured entities*

The Group also consolidated structured entities as disclosed in Note IV 41 Structured Entities.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

(1) Investment in associates

Name of entity		Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
Sino-Congolese Bank of Africa	(i)	2015	Brazzaville, Congo	XAF53,342,800,000	50.00	50.00	Bank
Shenzhen Yuanzhifuhai No. 6 Investment Enterprise LP	(ii)	2015	Guangdong, PRC	RMB1,110,854,000	9.00	20.00	Equity investment, investment management and investment advisory service
Beijing Guofa Aero Engine Industry Investment Fund Center LP	(iii)	2018	Beijing, PRC	RMB6,343,200,000	15.61	20.00	Non Securities investment activities and related advisory services
Jilin Hongqizhiwang New Energy Automobile Fund Investment Management Center LP	(iii)	2019	Jilin, PRC	RMB3,885,500,000	25.30	20.00	Non Securities investment activities and related advisory services
Xinyuan (Beijing) Debt-to-Equity Special Equity Investment Center LP	(iii)	2020	Beijing, PRC	RMB6,000,000,000	15.67	14.29	Equity investment

(i) On 28 May 2015, the Sino-Congolese Bank of Africa (La Banque Sino-Congolaise pour I'Afrique, hereinafter referred to as BSCA.Bank), established by the Bank and other investors with authorized capital denominated in Central African CFA franc ("XAF"), was granted the required banking license by the local regulatory authority. The Bank holds 50% equity interest and voting rights in BSCA.Bank, and has the right to participate in the financial and operational decisions of BSCA.Bank, but does not constitute control or joint control over those decisions.

(ii) On 23 December 2020, the Bank's wholly-owned subsidiary, ABC Financial Assets Investment Co., Ltd. invested in Shenzhen Yuanzhifuhai No. 6 Investment enterprise LP, which was established in 2015. The Group has the right to participate in the financial and operational decisions of these enterprises but the right does not have control or joint control over those decisions.

(iii) The Bank's wholly-owned subsidiary, ABC Financial Assets Investment Co., Ltd. and other investors invested in the above mentioned enterprises. The Group has the right to participate in the financial and operational decisions of these enterprises but the right does not have control or joint control over those decisions.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (Continued)

(2) *Investment in joint ventures*

Name of entity	Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
Jiangsu Jiequan ABC State-owned Enterprise Mixed Ownership Reform Fund LP	2018	Jiangsu, PRC	RMB1,000,000,000	69.00	28.57	Equity investment, Debt-to-Equity and related supporting services
ABC Gaotou (Hubei) Debt-to-Equity Investment Fund LP	2018	Hubei, PRC	RMB500,000,000	74.00	33.33	Non Securities equity investment activities and related advisory services
Suida (Jiaxing) Investment LP	2018	Zhejiang, PRC	RMB1,200,000,000	41.71	40.00	Industrial Investment
ABC New Silk Road (Jiaxing) Investment Fund LP	2018	Zhejiang, PRC	RMB1,500,000,000	66.67	50.00	Industrial investment and equity investment
Shenzhen Zhaoping Suida Investment Center LP	2018	Guangdong, PRC	RMB400,000,000	50.00	40.00	Industrial investment and investment advisory
Zhejiang New Power Fund LP	2018	Zhejiang, PRC	RMB2,000,000,000	50.00	50.00	Industrial investment and equity investment
Chengdu Chuanneng Lithium Energy Equity Investment Fund LP	2018	Sichuan, PRC	RMB2,520,000,000	30.16	28.57	Non-publicly traded equity investments and related advisory services
Inner Mogolia Mengxingzhuli Development Fund Investment Center LP	2018	Inner Mongolia, PRC	RMB2,000,000,000	50.00	50.00	Equity Investment, investment Management and investment advisory service
Yiwu Emerging Power Equity Investment Fund Partnership (Limited Partnership)	2019	Zhejiang, PRC	RMB2,000,000,000	50.00	50.00	Equity investment, debt-to-equity swap and supporting business
Shanghai Guohua Oil&Gas Equity Investment Fund, Ltd.	2019	Shanghai, PRC	RMB1,800,000,000	66.67	50.00	Equity investment, Debt-to-Equity and related supporting services
Nongyi Zihuan (Jiaxing) Equity Investment Partnership LP	2019	Zhejiang, PRC	RMB400,000,000	70.00	50.00	Investment and investment management
Jianxinjintou Infrastructure Equity Investment (Tianjin) Fund LP	2019	Tianjin, PRC	RMB3,500,000,000	20.00	20.00	Equity Investment and investment management
Shaanxi nongying financial holding equity investment fund partnership LP	2019	Shaanxi, PRC	RMB1,000,000,000	50.00	50.00	Industrial investment, equity investment
Shenzhen CIMC Nongyin Shuren Investment Partnership LP	2019	Guangdong, PRC	RMB1,601,000,000	49.97	33.33	Venture capital business
Shanghai Diantousuihe Equity Investment Fund LP	2020	Shanghai, PRC	RMB5,000,000,000	80.00	50.00	Industrial investment, equity investment and investment consultation

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (Continued)

(2) *Investment in joint ventures* (Continued)

The wholly-owned subsidiary of the Bank, ABC Financial Assets Investment Co., Ltd. and other investors established the above-mentioned partnership. According to the partnership agreements, matters considered at the Meeting of Partners or investment decision-making committee shall be approved by the unanimous consent of all the partners or all the committee members. The Bank constitutes joint control over the financial and operational decisions of these limited partnerships with the other investors.

21 PROPERTY AND EQUIPMENT

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
1 January 2020	193,465	67,116	13,364	4,321	278,266
Additions	4,918	7,060	1,519	5,484	18,981
Transfers	933	1,289	223	(2,445)	–
Disposals	(13,522)	(9,347)	(385)	(11)	(23,265)
31 December 2020	185,794	66,118	14,721	7,349	273,982
Accumulated depreciation					
1 January 2020	(73,609)	(48,465)	(3,393)	–	(125,467)
Charge for the year	(6,762)	(6,015)	(634)	–	(13,411)
Disposals	7,895	8,198	309	–	16,402
31 December 2020	(72,476)	(46,282)	(3,718)	–	(122,476)
Allowance for impairment losses					
1 January 2020	(265)	(16)	–	(34)	(315)
Impairment loss	–	–	(49)	–	(49)
Disposals	3	7	2	–	12
31 December 2020	(262)	(9)	(47)	(34)	(352)
Carrying value					
31 December 2020	113,056	19,827	10,956	7,315	151,154
1 January 2020	119,591	18,635	9,971	4,287	152,484

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 PROPERTY AND EQUIPMENT (Continued)

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
1 January 2019	186,443	65,804	11,097	7,986	271,330
Additions	3,825	6,712	2,828	2,060	15,425
Transfers	5,097	226	1	(5,324)	–
Disposals	(1,900)	(5,626)	(562)	(401)	(8,489)
31 December 2019	193,465	67,116	13,364	4,321	278,266
Accumulated depreciation					
1 January 2019	(67,584)	(47,735)	(3,258)	–	(118,577)
Charge for the year	(6,613)	(5,919)	(545)	–	(13,077)
Disposals	588	5,189	410	–	6,187
31 December 2019	(73,609)	(48,465)	(3,393)	–	(125,467)
Allowance for impairment losses					
1 January 2019	(271)	(21)	(1)	(8)	(301)
Impairment loss	–	–	–	(26)	(26)
Disposals	6	5	1	–	12
31 December 2019	(265)	(16)	–	(34)	(315)
Carrying value					
31 December 2019	119,591	18,635	9,971	4,287	152,484
1 January 2019	118,588	18,048	7,838	7,978	152,452

According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, the legal title of properties previously held by the Predecessor Entity are to be transferred to the Bank. As at 31 December 2020, the registration transfer process of these transferred properties and other certain properties have not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those assets.

22 DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is the analysis of the deferred tax balances:

	As at 31 December	
	2020	2019
Deferred tax assets	**133,355**	120,952
Deferred tax liabilities	**(334)**	(520)
Net	**133,021**	120,432

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 DEFERRED TAXATION (Continued)

(1) The following are the movements and major deferred tax assets and liabilities recognized:

	Allowance for impairment losses	Accrued but unpaid staff cost	Early retirement benefits	Provision	Fair value changes of financial instruments	Others	Total
31 December 2019	**114,140**	**9,175**	**533**	**7,640**	**(11,302)**	**246**	**120,432**
Credit/(charge) to the consolidated income statement	**7,804**	**1,251**	**(145)**	**2,885**	**(1,797)**	**210**	**10,208**
Credit to other comprehensive income	**–**	**–**	**–**	**–**	**2,381**	**–**	**2,381**
31 December 2020	**121,944**	**10,426**	**388**	**10,525**	**(10,718)**	**456**	**133,021**

	Allowance for impairment losses	Accrued but unpaid staff cost	Early retirement benefits	Provision	Fair value changes of financial instruments	Others	Total
31 December 2018	103,435	8,865	720	6,471	(6,579)	242	113,154
Credit/(charge) to the consolidated income statement	10,705	310	(187)	1,169	(1,940)	4	10,061
Credit to other comprehensive income	–	–	–	–	(2,783)	–	(2,783)
31 December 2019	114,140	9,175	533	7,640	(11,302)	246	120,432

(2) Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	31 December 2020		31 December 2019	
	Deductible/ (taxable) temporary difference	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	**487,775**	**121,944**	456,559	114,140
Fair value changes of financial instruments	**58,107**	**14,527**	23,426	5,856
Accrued but unpaid staff cost	**41,705**	**10,426**	36,700	9,175
Provision	**42,100**	**10,525**	30,558	7,640
Early retirement benefits	**1,551**	**388**	2,133	533
Others	**1,827**	**456**	1,019	255
Subtotal	**633,065**	**158,266**	550,395	137,599
Deferred tax liabilities				
Fair value changes of financial instruments	**(100,981)**	**(25,245)**	(68,635)	(17,158)
Others	**–**	**–**	(35)	(9)
Subtotal	**(100,981)**	**(25,245)**	(68,670)	(17,167)
Net	**532,084**	**133,021**	481,725	120,432

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 OTHER ASSETS

		As at 31 December	
		2020	2019
Accounts receivable and temporary payments	(1)	**97,619**	77,028
Land use rights	(2)	**19,340**	19,889
Right-of-use assets	(3)	**10,196**	10,805
Intangible assets		**4,154**	3,229
Interest receivable		**3,070**	3,183
Investment properties		**2,529**	2,730
Long-term deferred expenses		**2,233**	1,792
Value-added tax receivable		**1,192**	1,173
Foreclosed assets		**716**	594
Premiums receivable and reinsurance assets		**655**	564
Others		**9,588**	9,943
Total		**151,292**	130,930

(1) *Account receivables and temporary payments, which include receivables from settlement accounts and liquidation account, amount receivables from the MOF, other receivables, etc.*

For account receivables arising from revenue recognized in accordance with IFRS 15, the entity measures the loss allowance at amount equal to lifetime ECL using a simplified approach. At 31 December 2020, the principals of these account receivables was RMB584 million (31 December 2019: RMB1,554 million), and the loss allowance at amount equal to lifetime ECL was RMB412 million (31 December 2019: RMB859 million).

For other account receivables, the entity measures ECL using relatively simple ECL models, by which the Group prepares a provision matrix incorporating current condition and future forecast to measure loss allowances. At 31 December 2020, the gross amount of these account receivables was RMB99,869 million (31 December 2019: RMB78,994 million), and the loss allowance was RMB2,422 million (31 December 2019: RMB2,661 million).

(2) *According to relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, land use rights previously held by the Predecessor Entity are to be transferred to the Bank. As at 31 December 2020, the registration transfer process of certain land use rights has not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those land use rights.*

(3) *As at 31 December 2020, the right-of-use assets recognized by the Group mainly include operation buildings, and are mainly used for daily business. The depreciation expense for the year ended 31 December 2020 was amounting to RMB3,993 million (for the year ended 31 December 2019: RMB3,700 million), and the accumulated depreciation amounting to RMB7,361 million (31 December 2019: RMB3,700 million).*

24 BORROWINGS FROM CENTRAL BANKS

As at 31 December 2020, borrowings from central banks mainly included Medium-term Lending Facilities from PBOC amounting to RMB674,400 million (31 December 2019: RMB596,500 million).

25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2020	2019
Deposits from:		
Domestic banks	**114,693**	100,894
Other domestic financial institutions	**1,229,313**	1,339,628
Overseas banks	**2,006**	3,242
Other overseas financial institutions	**42,691**	55,438
Subtotal	**1,388,703**	1,499,202
Accrued interest	**5,813**	4,707
Total	**1,394,516**	1,503,909

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2020	2019
Placements from:		
Domestic banks and other financial institutions	**222,377**	148,603
Overseas banks and other financial institutions	**167,291**	175,124
Subtotal	**389,668**	323,727
Accrued interest	**992**	1,636
Total	**390,660**	325,363

27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

		As at 31 December	
		2020	2019
Financial liabilities held for trading			
Precious metal contracts		**13,725**	14,147
Subtotal		**13,725**	14,147
Financial liabilities designated at fair value through profit or loss			
Placements from banks and other financial institutions by principal guaranteed wealth management	(1)	**9,540**	6,681
Overseas debt securities		**–**	3,505
Liabilities of the controlled structured entities		**4,452**	5,901
Others		**100**	–
Subtotal		**14,092**	16,087
Total		**27,817**	30,234

(1) The Group designates placements from banks and other financial institutions by principal guaranteed wealth management as financial liabilities at fair value through profit or loss.

For the current and prior year, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss attributable to the changes in the Group's own credit risk.

28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 31 December	
	2020	2019
Analyzed by type of collateral:		
Debt securities	**107,844**	50,895
Bills	**1,325**	1,970
Subtotal	**109,169**	52,865
Accrued interest	**26**	332
Total	**109,195**	53,197

The collateral pledged under repurchase agreement is disclosed in Note IV 42 Contingent Liabilities and Commitments — Collateral.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 DUE TO CUSTOMERS

		As at 31 December	
		2020	2019
Demand deposits			
Corporate customers		**5,236,566**	4,973,481
Individual customers		**5,872,736**	5,689,617
Time deposits			
Corporate customers		**2,477,710**	2,306,667
Individual customers		**6,062,167**	5,223,243
Pledged deposits	(1)	**299,962**	250,847
Others		**158,231**	174,318
Subtotal		**20,107,372**	18,618,173
Accrued interest		**265,529**	230,982
Total		**20,372,901**	18,849,155

(1) Analyzed by activity to which pledged deposits are related to:

	As at 31 December	
	2020	2019
Guarantee and letters of guarantee	**73,606**	68,694
Trade finance	**100,822**	75,808
Bank acceptance	**48,718**	49,904
Letters of credit	**39,309**	17,571
Others	**37,507**	38,870
Total	**299,962**	250,847

(2) As at 31 December 2020, the Group reclassified the principal-guaranteed WMPs that were originally disclosed in Note IV 27 "Financial Liabilities at Fair Value Through Profit or Loss" to the item of "Due to Customers", relevant comparative amounts have been reclassified. The measurement of these principal-guaranteed WMPs is unchanged and at fair value through profit or loss. As at 31 December 2020 and 31 December 2019, the difference between the fair value of the principal-guaranteed WMPs and the structured deposits designated at fair value through profit or loss issued by the Group and the contractual amount payable to the holders of these products upon maturity was not material. As at 31 December 2020, due to customers measured at amortized cost of the Group amounted to RMB20,031,232 million (31 December 2019: RMB18,396,387 million), due to customers measured at fair value through profit or loss of the Group amounted to RMB341,669 million (31 December 2019: RMB452,768 million).

30 DEBT SECURITIES ISSUED

		As at 31 December	
		2020	2019
Bonds issued	(1)	**430,703**	348,686
Certificates of deposit issued	(2)	**252,569**	268,599
Other debt securities issued	(3)	**679,261**	482,345
Subtotal		**1,362,533**	1,099,630
Accrued Interest		**9,312**	8,582
Total		**1,371,845**	1,108,212

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 DEBT SECURITIES ISSUED (Continued)

As at 31 December 2020 and 31 December 2019, there was no default related to any debt securities issued by the Group.

(1) Bonds issued

		As at 31 December	
		2020	2019
2.75% USD fixed rate Green Bonds maturing in October 2020	(i)	**–**	3,488
5.30% subordinated fixed rate bonds maturing in June 2026	(ii)	**50,000**	50,000
4.99% subordinated fixed rate bonds maturing in December 2027	(iii)	**50,000**	50,000
4.45% Tier-two capital fixed rate bonds maturing in October 2027	(iv)	**40,000**	40,000
4.45% Tier-two capital fixed rate bonds maturing in April 2028	(v)	**40,000**	40,000
4.28% Tier-two capital fixed rate bonds maturing in March 2029	(vi)	**50,000**	50,000
4.30% Tier-two capital fixed rate bonds maturing in April 2029	(vii)	**40,000**	40,000
3.10% Tier-two capital fixed rate bonds maturing in April 2030	(viii)	**40,000**	–
4.53% Tier-two capital fixed rate bonds maturing in March 2034	(ix)	**10,000**	10,000
4.63% Tier-two capital fixed rate bonds maturing in April 2034	(x)	**20,000**	20,000
Medium term notes issued	(xi)	**42,643**	31,163
1.99% fixed rate financial bond maturing in April 2023	(xii)	**20,000**	–
3.68% CNY fixed rate Green Bonds maturing in June 2022	(xiii)	**2,720**	3,000
3.90% fixed rate financial bond maturing in November 2023	(xiv)	**1,650**	–
3.30% fixed rate financial bond maturing in September 2022	(xv)	**3,870**	2,890
2.68% fixed rate financial bond maturing in March 2023	(xvi)	**4,000**	–
4.70% fixed rate capital replenishment bond maturing in August 2021	(xvii)	**2,410**	3,000
3.40% fixed rate financial bond maturing in September 2024	(xviii)	**2,000**	1,880
2.75% fixed rate financial bond maturing in March 2025	(xix)	**6,000**	–
3.80% fixed rate financial bond maturing in June 2025	(xx)	**500**	–
5.55% fixed rate capital replenishment bond maturing in March 2028	(xxi)	**3,500**	3,500
3.60% fixed rate capital replenishment bond maturing in March 2030	(xxii)	**1,500**	–
Total nominal value		**430,793**	348,921
Less: Unamortized issuance cost and discounts		**(90)**	(235)
Total		**430,703**	348,686

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 DEBT SECURITIES ISSUED (Continued)

(1) Bonds issued (Continued):

Pursuant to the approval by relevant regulatory authorities, the bonds issued by the Group are set out as below:

(i) The USD green bonds issued in October 2015 have a tenor of 5 years matured in October 2020.

(ii) The subordinated fixed rate bonds issued in June 2011 have a tenor of 15 years, with a fixed coupon rate of 5.30%, payable annually. The Bank has an option to redeem all of the bonds at face value on 6 June 2021. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 5.30% per annum from 7 June 2021 onwards.

(iii) The subordinated fixed rate bonds issued in December 2012 have a tenor of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank has an option to redeem all of the bonds at face value on 19 December 2022. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.99% per annum from 20 December 2022 onwards.

(iv) The Tier-two capital bonds issued in October 2017 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 16 October 2022 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 17 October 2022 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(v) The Tier-two capital bonds issued in April 2018 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 26 April 2023 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 27 April 2023 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(vi) The Tier-two capital bonds issued in March 2019 have a tenor of 10 years, with a fixed coupon rate of 4.28% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 18 March 2024 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.28% per annum from 19 March 2024 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(vii) The Tier-two capital bonds issued in April 2019 have a tenor of 10 years, with a fixed coupon rate of 4.30% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 10 April 2024 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.30% per annum from 11 April 2024 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(viii) The Tier-two capital bonds issued in April 2020 have a tenor of 10 years, with a fixed coupon rate of 3.10% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 5 May 2025 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 3.10% per annum from 6 May 2025 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 DEBT SECURITIES ISSUED (Continued)

(1) Bonds issued (Continued):

(ix) The Tier-two capital bonds issued in March 2019 have a tenor of 15 years, with a fixed coupon rate of 4.53% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 18 March 2029 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.53% per annum from 19 March 2029 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(x) The Tier-two capital bonds issued in April 2019 have a tenor of 15 years, with a fixed coupon rate of 4.63% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 10 April 2029 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.63% per annum from 11 April 2029 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(xi) The medium term notes ("MTNs") were issued by the Overseas Operations of the Group and are measured at amortized cost. The details of medium term notes issued were as follows:

	As at 31 December 2020		
	Maturity dates ranging from	**Coupon rates (%)**	**Outstanding balance**
Fixed rate HKD MTNs	**October 2022**	**1.00**	**4,208**
Fixed rate USD MTNs	**June 2021 to October 2025**	**1.00–3.88**	**18,871**
Floating rate USD MTNs	**September 2021 to November 2023**	**3 months Libor+68 to 85bps**	**19,564**
Total			**42,643**

	As at 31 December 2019		
	Maturity dates ranging from	Coupon rates (%)	Outstanding balance
Fixed rate HKD MTNs	August 2020	2.18–2.52	470
Fixed rate USD MTNs	September 2020 to September 2021	2.50–3.88	9,069
Floating rate USD MTNs	February 2020 to November 2023	3 months Libor+68 to 85bps	21,624
Total			31,163

(xii) The fixed rate Financial bonds issued by ABC in April 2020 have a tenor of 3 years, with a fixed coupon rate of 1.99%, payable annually.

(xiii) The CNY green bonds issued by ABC Financial Leasing Co., Ltd. in June 2019 have a tenor of 3 years, with a fixed coupon rate 3.68%, payable annually.

(xiv) The fixed rate Financial bonds issued by ABC Financial Leasing Co., Ltd. in November 2020 have a tenor of 3 years, with a fixed coupon rate of 3.90%, payable annually.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 DEBT SECURITIES ISSUED (Continued)

(1) Bonds issued (Continued):

(xv) The fixed rate Financial bonds issued by ABC Financial Assets Investment Co., Ltd. in September 2019 have a tenor of 3 years, with a fixed coupon rate of 3.30%, payable annually.

(xvi) The fixed rate Financial bonds issued by ABC Financial Assets Investment Co., Ltd. in March 2020 have a tenor of 3 years, with a fixed coupon rate of 2.68%, payable annually.

(xvii) The fixed rate Financial bonds issued by ABC International Holdings Limited in August 2018 have a tenor of 3 years, with a fixed coupon rate of 4.70%, payable annually.

(xviii) The fixed rate Financial bonds issued by ABC Financial Assets Investment Co. Ltd in September 2019 have a tenor of 5 years, with a fixed coupon rate of 3.40%, payable annually.

(xix) The fixed rate Financial bonds issued by ABC Financial Assets Investment Co. Ltd in March 2020 have a tenor of 5 years, with a fixed coupon rate of 2.75%, payable annually.

(xx) The fixed rate Financial bonds issued by ABCI Investment Suzhou Corporation Limited in June 2020 have a tenor of 5 years, with a fixed coupon rate of 3.80%, payable annually.

(xxi) The fixed rate Capital replenishment debt issued by ABC Life in March 2018 have a tenor of 10 years, with a fixed coupon rate of 5.55%, payable annually. ABC Life Insurance has an option to redeem all of the bonds at face value on 4 March 2023. If ABC Life Insurance do not exercise this option, the coupon rate of the bonds would increase to 6.55% per annum from 5 March 2023 onwards.

(xxii) The fixed rate Capital replenishment debt issued by ABC Life in March 2020 have a tenor of 10 years, with a fixed coupon rate of 3.60%, payable annually. ABC Life Insurance has an option to redeem all of the bonds at face value on 25 March 2025. If ABC Life Insurance do not exercise this option, the coupon rate of the bonds would increase to 4.60% per annum from 26 March 2025 onwards.

(2) As at 31 December 2020, the certificates of deposit were issued by the Overseas Operations of the Group and were measured at amortized cost. The terms of the certificates of deposit ranged from one month to seven years, with interest rates ranging from -0.02% to 3.66% per annum (As at 31 December 2019, the terms of the certificates of deposit ranged from one month to seven years, with interest rates ranging from -0.23% to 3.66%).

(3) Other debt securities issued by the Group

(i) As at 31 December 2020, the commercial papers were issued by the Overseas Operations of the Group and were measured at amortized cost. The terms of the commercial papers ranged from three months to one year, with interest rates ranging from 0.00% to 2.14% per annum (As at 31 December 2019, the terms of the commercial papers ranged from three months to one year, with interest rates ranging from -0.22% to 2.85%).

(ii) As at 31 December 2020, the interbank certificate of deposit were issued by the Bank's Head Office. The term of the interbank certificate of deposit ranged from one month to one year, with interest rates ranging from 1.58% to 3.35% per annum (As at 31 December 2019, the term of the interbank certificate of deposit ranged from one month to one year, with interest rates ranging from 2.70% to 3.24%).

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 OTHER LIABILITIES

		As at 31 December	
		2020	2019
Clearing and settlement		**168,852**	105,682
Insurance liabilities		**89,651**	73,588
Staff costs payable	(1)	**56,811**	50,471
Income taxes payable		**54,340**	59,286
Provision	(2)	**42,100**	30,558
VAT and other taxes payable		**10,235**	8,541
Lease liabilities		**9,824**	10,280
Suspense accounts		**5,168**	4,579
Amount payable to the MOF		**711**	561
Others		**86,898**	71,410
Total		**524,590**	414,956

(1) Staff costs payable

		As at 31 December	
		2020	2019
Short-term employee benefits	(i)	**47,380**	43,130
Defined contribution benefits	(ii)	**7,880**	5,208
Early retirement benefits	(iii)	**1,551**	2,133
Total		**56,811**	50,471

(i) Short-term employee benefits

		2020			
		1 January	**Increase**	**Decrease**	**31 December**
Salaries, bonuses, allowance and subsidies	(a)	**31,289**	**81,087**	**(77,366)**	**35,010**
Housing funds	(a)	**184**	**8,933**	**(9,009)**	**108**
Social insurance including:	(a)	**332**	**4,713**	**(4,660)**	**385**
— Medical insurance		**311**	**4,398**	**(4,342)**	**367**
— Maternity insurance		**13**	**205**	**(209)**	**9**
— Employment injury insurance		**8**	**110**	**(109)**	**9**
Labor union fees and staff education expenses		**7,049**	**3,613**	**(2,623)**	**8,039**
Others		**4,276**	**10,612**	**(11,050)**	**3,838**
Total		**43,130**	**108,958**	**(104,708)**	**47,380**

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 OTHER LIABILITIES (Continued)

(1) Staff costs payable (Continued)

(i) Short-term employee benefits (Continued)

		2019			
		1 January	Increase	Decrease	31 December
Salaries, bonuses, allowance and subsidies	(a)	29,499	79,255	(77,465)	31,289
Housing funds	(a)	186	8,524	(8,526)	184
Social insurance including:	(a)	255	5,450	(5,373)	332
— Medical insurance		235	4,902	(4,826)	311
— Maternity insurance		13	407	(407)	13
— Employment injury insurance		7	141	(140)	8
Labor union fees and staff education expenses		6,206	3,534	(2,691)	7,049
Others		3,552	10,044	(9,320)	4,276
Total		39,698	106,807	(103,375)	43,130

(a) *Salaries, bonuses, allowance and subsidies, housing funds and social insurance are timely distributed and paid in accordance with relevant laws and regulations and the Group's policy.*

(ii) Defined contribution benefits

	2020			
	1 January	**Increase**	**Decrease**	**31 December**
Basic pensions	**452**	**8,110**	**(7,943)**	**619**
Unemployment insurance	**34**	**249**	**(243)**	**40**
Annuity Scheme	**4,722**	**6,367**	**(3,868)**	**7,221**
Total	**5,208**	**14,726**	**(12,054)**	**7,880**

	2019			
	1 January	Increase	Decrease	31 December
Basic pensions	518	10,825	(10,891)	452
Unemployment insurance	31	349	(346)	34
Annuity Scheme	2,155	6,225	(3,658)	4,722
Total	2,704	17,399	(14,895)	5,208

The defined contribution benefits are timely distributed and paid in accordance with relevant laws and regulations and the Group's policy.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 OTHER LIABILITIES (Continued)

(1) *Staff costs payable* (Continued)

(iii) *Early retirement benefits*

	2020			
	1 January	**Increase**	**Decrease**	**31 December**
Early retirement benefits	**2,133**	**5**	**(587)**	**1,551**

	2019			
	1 January	Increase	Decrease	31 December
Early retirement benefits	2,883	61	(811)	2,133

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	As at 31 December	
	2020	2019
Discount rate	**2.90%**	2.80%
Annual average medical expense growth rate	**8.00%**	8.00%
Annual subsidies growth rate	**8.00%**	8.00%
Normal retirement age		
— Male	**60**	60
— Female	**55**	55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

Any difference arising from the actual result or changes in assumptions may affect the amount of expense recognized in the consolidated income statement.

(2) *Provision*

		As at 31 December	
		2020	2019
Loan commitments and financial guarantee contracts	(i)	**35,756**	25,213
Litigation provision		**5,560**	4,490
Others		**784**	855
Total		**42,100**	30,558

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 OTHER LIABILITIES (Continued)

(2) *Provision* (Continued)

(i) Analyzed by movements in loss allowance for loan commitments and financial guarantee contracts

		Year ended 31 December 2020			
		Stage I	Stage II	Stage III	
		12m ECL	Lifetime ECL		Total
1 January 2020		**22,836**	**2,032**	**345**	**25,213**
Transfer:					
stage I transfer to stage II		**(682)**	**682**	**–**	**–**
stage II transfer to stage III		**–**	**(348)**	**348**	**–**
stage II transfer to stage I		**3**	**(3)**	**–**	**–**
Increase	(a)	**18,613**	**–**	**–**	**18,613**
Remeasurement		**720**	**6**	**401**	**1,127**
Decrease	(a)	**(8,134)**	**(708)**	**(355)**	**(9,197)**
31 December 2020		**33,356**	**1,661**	**739**	**35,756**

		Year ended 31 December 2019			
		Stage I	Stage II	Stage III	
		12m ECL	Lifetime ECL		Total
1 January 2019		17,797	2,006	720	20,523
Transfer:					
stage I transfer to stage II		(1,072)	1,072	–	–
stage II transfer to stage III		–	(319)	319	–
stage II transfer to stage I		13	(13)	–	–
Increase	(a)	14,751	–	–	14,751
Remeasurement		(116)	(76)	26	(166)
Decrease	(a)	(8,537)	(638)	(720)	(9,895)
31 December 2019		22,836	2,032	345	25,213

(a) The impact of loss allowance driven by new loan commitments and financial guarantee contracts signed in 2020 and 2019 is disclosed as "Increase". The impact of loss allowance driven by withdrawals, advances or expiration of loan commitments and financial guarantee contracts in 2020 and 2019 are disclosed as "Decrease". The changes of loss allowance for loan commitments and financial guarantee contracts are mainly driven by the net increase in the exposure of loan commitments and financial guarantee contracts.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 ORDINARY SHARES

	31 December 2020	
	Number of shares (millions)	**Nominal value**
Domestic listed A shares, par value RMB1.00 per share	**319,244**	**319,244**
Overseas listed H shares, par value RMB1.00 per share	**30,739**	**30,739**
Total	**349,983**	**349,983**

	31 December 2019	
	Number of shares (millions)	Nominal value
Domestic listed A shares, par value RMB1.00 per share	319,244	319,244
Overseas listed H shares, par value RMB1.00 per share	30,739	30,739
Total	349,983	349,983

(1) *A shares refer to the ordinary shares listed in the Mainland China. They are offered and traded in RMB. H shares refer to the ordinary shares listed in Hong Kong SAR. Their par value is denominated in RMB when they were initially offered and are currently traded in HKD.*

(2) *As at 31 December 2020 and 31 December 2019, the Bank's A Shares and H Shares were not subject to lock-up restriction, except for the 25.19 billion ordinary shares issued through a private placement in June 2018.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 OTHER EQUITY INSTRUMENTS

Financial instruments in issued		Dividend rate	Issued price (RMB yuan)	Issued number of shares (millions)	Issued nominal value (millions)	Maturity date	Conversions
Preference shares — first tranche[1]		6% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the year
Preference shares — second tranche[1]		5.5% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the year
Perpetual bonds	Undated tier 1 capital bonds in 2019 — first tranche[2]	4.39% per annum for the first 5 years after issuance, and reset every 5 years as stated below	100	850	85,000	No maturity date	NA
	Undated tier 1 capital bonds in 2019 — second tranche[2]	4.20% per annum for the first 5 years after issuance, and reset every 5 years as stated below	100	350	35,000	No maturity date	NA
	Undated tier 1 capital bonds in 2020 — first tranche[2]	3.48% per annum for the first 5 years after issuance, and reset every 5 years as stated below	100	850	85,000	No maturity date	NA
	Undated tier 1 capital bonds in 2020 — second tranche[2]	4.50% per annum for the first 5 years after issuance, and reset every 5 years as stated below	100	350	35,000	No maturity date	NA

(1) The Bank was authorized to issue 800 million preference shares of RMB100 each, pursuant to the approval by its ordinary equity holders and relevant regulatory authorities.

The first tranche of 400 million preference shares was issued at par in November 2014. The carrying amount, net of direct issuance expenses, was RMB39,944 million as at 31 December 2020. The first tranche of preference shares bears a dividend rate of 6% per annum; dividends are non-cumulative and where payable, are paid annually, for the first five years from issuance. The dividend rate will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 2.29%. The first five-year dividend period expired on 1 November 2019. During the second dividend period beginning from 5 November 2019, the base rate and fixed premium is 3.03% and 2.29%, respectively, and the coupon rate is 5.32%. The dividend is paid annually.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 OTHER EQUITY INSTRUMENTS (Continued)

(1) The Bank was authorized to issue 800 million preference shares of RMB100 each, pursuant to the approval by its ordinary equity holders and relevant regulatory authorities. *(Continued)*

The second tranche of 400 million preference shares was issued at par in March 2015. The carrying amount, net of direct issuance expenses, was RMB39,955 million as at 31 December 2020. The second tranche of preference shares bears a dividend rate of 5.5% per annum; dividends are non-cumulative and where payable, are paid annually, for the first five years from issuance. The dividend rate will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 2.24%. The first five-year dividend period expired from 6 March 2020. During the second dividend period beginning from 11 March 2020, the base rate and fixed premium is 2.60% and 2.24%, respectively, and the coupon rate is 4.84%. The dividend is paid annually.

There were no changes in the carrying amounts of the preference shares since issuance.

As authorized by the ordinary equity holders in the annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. The Bank shall not distribute any dividends to its ordinary equity holders before it declares such dividends to preference shareholders for the relevant period. The distribution of preference shares dividend is at the Bank's discretion and is non-cumulative. Preference shareholders are not entitled to participate in the distribution of retained profits except for the dividends stated above.

The Bank has a redemption option when specified conditions as stipulated in the offering documents are met, subject to regulatory approval, whereas preference shareholders have no right to request the Bank to redeem the preference shares.

Upon liquidation, the claims of preference shareholders have priority over ordinary equity holders on the residual assets of the Bank, but are subordinated to those of depositors, general creditors, Tier-two Capital Instruments holders or any other subordinated debt holders with equivalent rights.

Upon occurrence of the triggering events as stipulated in paragraph 2(3) of the Guidance of the China Banking Regulatory Commission on Commercial Banks' Innovation on Capital Instruments (CBRC No. 56 [2012]) and subject to regulatory approval, the first tranche of preference shares and the second tranche of preference shares shall be mandatorily converted into ordinary A shares of the Bank at the conversion price agreed, partially or entirely. The initial conversion price of the preference shares issued by the Bank was RMB2.43 per share. In June 2018, the Bank has issued 25.19 billion ordinary A shares to specific investors. The conversion price of the preference shares will be adjusted where certain events occur including bonus issues, rights issue, capitalization of reserves and new issuances of ordinary shares, subject to terms and formulas provided in the offering documents, to maintain the relative interests between preference shareholders and ordinary equity holders. Upon completion of the private placement of ordinary shares by the Bank, the mandatory conversion price of the first tranche of preference shares and the second tranche of preference shares issued by the Bank will be adjusted from RMB2.43 per share to RMB2.46 per share.

These preference shares are classified as equity instruments, and presented as equity in the consolidated statement of financial position, and are qualified as Additional Tier-one Capital Instruments in accordance with the CBIRC requirements.

The carrying amount, net of direct issuance expenses, was RMB79,899 million as at 31 December 2020 (31 December 2019: RMB79,899 million).

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 OTHER EQUITY INSTRUMENTS (Continued)

(2) With the authorization of the annual general meeting and the approval from regulatory authorities, the Bank was permitted to issue undated additional tier 1 capital bonds ("Perpetual bonds" or the "Bonds") of an amount no more than RMB120 billion in 2019.

The Bank issued undated additional tier 1 capital bonds (first tranche) with the amount of RMB85 billion in the national interbank bond market on 16 August 2019, and the issuance was completed on 20 August 2019. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 4.39%.

The Bank issued undated additional tier 1 capital bonds (second tranche) with the amount of RMB35 billion in the national interbank bond market on 3 September 2019, and the issuance was completed on 5 September 2019. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 4.20%.

With the authorization of the annual general meeting and the approval from regulatory authorities, the Bank was granted to issue undated additional tier 1 capital bonds ("Perpetual bonds" or the "Bonds") of an amount no more than RMB120 billion in 2020.

The Bank issued undated additional tier 1 capital bonds (first tranche) with the amount of RMB85 billion in the national interbank bond market on 8 May 2020, and the issuance was completed on 12 May 2020. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 3.48%.

The Bank issued undated additional tier 1 capital bonds (second tranche) with the amount of RMB35 billion in the national interbank bond market on 20 August 2020, and the issuance was completed on 24 August 2020. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem. The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years, and the annual coupon rate for the first five years is 4.50%.

The duration of the Perpetual bonds is the same as the continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the Bonds in whole or in part on each distribution payment date from the fifth anniversary since the issuance date of the Bonds. Upon the occurrence of a trigger event for write-downs, with the approval of the CBIRC and without the need for the consent of the holders of the Bonds, the Bank has the right to write down all or part of the aggregate amount of the Bonds then issued and outstanding. The claims of the holders of the Bonds will be subordinated to the claims of depositors, general creditors and subordinated indebtedness that ranks senior to the Bonds; and shall rank in priority to all classes of shares held by shareholders and will rank pari passu with the claims in respect of any other additional tier 1 capital instruments of the Bank that rank pari passu with the Bonds.

The distributions on the Perpetual bonds are non-cumulative. The Bank shall have the right to cancel distributions on the Bonds in whole or in part and any such cancellation shall not constitute an event of default. The Bank may at its discretion use the proceeds from the cancelled distribution to meet other obligations as they fall due. But the Bank shall not make any distribution to ordinary shareholders until its decision to resume the distribution payments in whole to the holders of the Bonds.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 OTHER EQUITY INSTRUMENTS (Continued)

(2) With the authorization of the annual general meeting and the approval from regulatory authorities, the Bank was permitted to issue undated additional tier 1 capital bonds ("Perpetual bonds" or the "Bonds") of an amount no more than RMB120 billion in 2019. *(Continued)*

The net proceeds from the issuance of the Perpetual bonds after deducting offering related expenses were used to replenish the Bank's additional tier 1 capital.

The carrying amount, net of direct issuance expenses, was RMB239,976 million as at 31 December 2020 (31 December 2019: RMB119,987 million).

34 CAPITAL RESERVE

The capital reserve represents the premium related to ordinary shares issued by the Bank in 2010 and private placement of ordinary shares to the specific shareholders in 2018. Share premium was recorded in the capital reserve after deducting direct issue expenses, which consisted primarily of underwriting fees and professional fees.

35 INVESTMENT REVALUATION RESERVE

	2020		
	Gross carrying amount	**Tax effect**	**Net effect**
31 December 2019	**39,875**	**(10,191)**	**29,684**
Fair value changes on debt instruments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	**(4,238)**	**1,188**	**(3,050)**
— Amount removed from other comprehensive income and recognized in profit or loss	**(750)**	**188**	**(562)**
Fair value changes on equity instruments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	**(114)**	**29**	**(85)**
31 December 2020	**34,773**	**(8,786)**	**25,987**

	2019		
	Gross carrying amount	Tax effect	Net effect
31 December 2018	24,996	(6,004)	18,992
Fair value changes on debt instruments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	14,921	(4,196)	10,725
— Amount removed from other comprehensive income and recognized in profit or loss	(425)	107	(318)
Fair value changes on equity instruments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	383	(98)	285
31 December 2019	39,875	(10,191)	29,684

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 SURPLUS RESERVE

Under PRC Law, the Bank is required to transfer 10% of its net profit determined under the PRC GAAP to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. Pursuant to the resolution of the Board of Directors' Meeting held on 30 March 2021, an appropriation of 10% of the profit for the current year, determined under the generally accepted accounting principles of the PRC, to the statutory surplus reserve, in the amount of RMB21,040 million (2019: RMB20,623 million) was approved. In addition, certain subsidiaries and overseas branches also appropriated surplus reserves in accordance with local requirements.

Subject to the approval of the ordinary equity holders, the statutory surplus reserves can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserves amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserves after such capitalization is not less than 25% of the ordinary share capital.

37 GENERAL RESERVE

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirement") issued by the MOF, effective on 1 July 2012, in addition to impairment allowance, the Bank establishes a general reserve within ordinary equity holders' equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement. The general reserve includes regulatory reserve appropriated by the Bank's overseas branches pursuant to local regulatory requirements.

Pursuant to relevant PRC regulatory requirements, some domestic subsidiaries of the Bank are required to appropriate certain amounts of their net profit as general reserves.

During the year ended 31 December 2020, the Group transferred RMB34,433 million (2019: RMB37,826 million) to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB34,211 million (2019: RMB37,626 million) related to the appropriation proposed for the year ended 31 December 2019 which was approved in the annual general meeting held on 22 June 2020.

On 30 March 2021, the Board of Directors' meeting approved a proposal of appropriation of RMB39,217 million to general reserve. Such appropriation will be recognized in the Group's consolidated financial statements after approval by ordinary equity holders in the forthcoming annual general meeting.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following balances with an original maturity of three months or less:

	As at 31 December	
	2020	2019
Cash	**76,281**	92,928
Balance with central banks	**51,802**	401,632
Deposits with banks and other financial institutions	**76,904**	105,571
Placements with and loans to banks and other financial institutions	**207,568**	150,495
Financial assets held under resale agreements	**762,598**	703,955
Total	**1,175,153**	1,454,581

39 OPERATING SEGMENTS

Operating segments are identified on the basis of internal management reports with respect to the components of the Group that are regularly reviewed by the Board and relevant management committees, which constitute the chief operating decision makers, for the purposes of allocating resources to segments and assessing their performance. The Group's chief operating decision makers review three different sets of financial information based on (i) geographical locations, (ii) business activities and (iii) County Area and Urban Area banking business.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the consolidated financial statements and those used in preparing the operating segment information.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Geographical operating segments

The details of the geographical operating segments are as follows:

Head Office	
Yangtze River Delta:	Shanghai, Jiangsu, Zhejiang, Ningbo
Pearl River Delta:	Guangdong, Shenzhen, Fujian, Xiamen
Bohai Rim:	Beijing, Tianjin, Hebei, Shandong, Qingdao
Central China:	Shanxi, Hubei, Henan, Hunan, Jiangxi, Hainan, Anhui
Western China:	Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang (including Xinjiang Production and Construction Corps Branch), Tibet, Inner Mongolia, Guangxi
Northeastern China:	Liaoning, Heilongjiang, Jilin, Dalian
Overseas and Others:	Subsidiaries and overseas branches

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

Geographical operating segments (Continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
For the year ended 31 December 2020										
External interest income	295,937	146,586	104,665	90,675	100,397	146,982	22,471	23,219	–	930,932
External interest expense	(62,901)	(81,914)	(40,592)	(61,183)	(50,040)	(57,814)	(17,574)	(13,835)	–	(385,853)
Inter-segment interest (expense)/income	(236,844)	56,373	26,000	56,045	43,094	40,319	16,672	(1,659)	–	–
Net interest income	(3,808)	121,045	90,073	85,537	93,451	129,487	21,569	7,725	–	545,079
Fee and commission income	32,182	14,579	11,403	9,492	8,660	12,101	2,148	601	–	91,166
Fee and commission expense	(4,023)	(2,620)	(2,476)	(1,975)	(2,281)	(2,529)	(549)	(168)	–	(16,621)
Net fee and commission income	28,159	11,959	8,927	7,517	6,379	9,572	1,599	433	–	74,545
Net trading gain/(loss)	10,463	359	(151)	(156)	(110)	897	(76)	5,179	–	16,405
Net gain/(loss) on financial investments	4,058	(5,648)	(2,280)	(2,462)	(1,034)	(1,550)	(223)	1,827	–	(7,312)
Net gain on derecognition of financial assets measured at amortized cost	1	–	–	–	–	–	–	–	–	1
Other operating income	(1,839)	721	492	485	307	1,356	59	29,033	–	30,614
Operating income	37,034	128,436	97,061	90,921	98,993	139,762	22,928	44,197	–	659,332
Operating expenses	(15,628)	(33,097)	(24,797)	(28,845)	(33,345)	(47,362)	(13,395)	(33,428)	–	(229,897)
Credit impairment losses	(15,181)	(26,704)	(17,796)	(26,626)	(31,237)	(37,932)	(6,398)	(2,825)	–	(164,699)
Impairment losses on other assets	(1)	1	–	12	3	(130)	(38)	(51)	–	(204)
Operating profit	6,224	68,636	54,468	35,462	34,414	54,338	3,097	7,893	–	264,532
Share of results of associates and joint ventures	4	–	–	–	–	–	–	514	–	518
Profit before tax	6,228	68,636	54,468	35,462	34,414	54,338	3,097	8,407	–	265,050
Income tax expense										(48,650)
Profit for the year										216,400
Depreciation and amortization included in operating expenses	1,570	3,170	2,572	3,360	3,075	4,150	1,202	452	–	19,551
Capital expenditure	2,438	2,942	2,937	2,537	3,673	4,607	1,658	1,930	–	22,722
As at 31 December 2020										
Segment assets	5,956,432	5,698,994	3,443,268	4,676,597	3,917,314	5,231,854	1,175,767	1,207,010	(4,235,544)	27,071,692
Including: Investment in associates and joint ventures	210	–	–	–	–	–	–	8,655	–	8,865
Unallocated assets										133,355
Total assets										27,205,047
Include: non-current assets (1)	12,523	31,128	18,944	28,896	27,810	42,014	11,127	27,410	–	199,852
Segment liabilities	(3,726,048)	(5,748,167)	(3,442,287)	(4,710,246)	(3,940,522)	(5,264,694)	(1,186,993)	(1,156,214)	4,235,544	(24,939,627)
Unallocated liabilities										(54,674)
Total liabilities										(24,994,301)
Loan commitments and financial guarantee contracts	32,779	970,556	558,971	496,243	422,731	523,658	77,342	87,024	–	3,169,304

(1) *Non-current assets include property and equipment, investment properties, right-of-use assets, land use rights, intangible assets and other long-term assets.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

Geographical operating segments (Continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
For the year ended 31 December 2019										
External interest income	288,232	131,213	93,283	85,043	89,614	133,281	21,701	30,773	–	873,140
External interest expense	(55,547)	(78,563)	(38,991)	(56,914)	(48,692)	(55,322)	(16,407)	(21,834)	–	(372,270)
Inter-segment interest (expense)/income	(220,171)	50,152	25,699	50,389	41,859	39,850	14,201	(1,979)	–	–
Net interest income	12,514	102,802	79,991	78,518	82,781	117,809	19,495	6,960	–	500,870
Fee and commission income	27,767	14,687	11,335	9,855	9,128	12,559	2,302	683	–	88,316
Fee and commission expense	(3,477)	(2,644)	(2,297)	(2,045)	(1,940)	(2,352)	(471)	(163)	–	(15,389)
Net fee and commission income	24,290	12,043	9,038	7,810	7,188	10,207	1,831	520	–	72,927
Net trading gain/(loss)	10,446	87	27	44	(15)	10	(147)	8,615	–	19,067
Net gain/(loss) on financial investments	6,137	40	13	(932)	(54)	(23)	–	612	–	5,793
Other operating income	25	2,113	963	643	560	1,340	140	24,909	–	30,693
Operating income	53,412	117,085	90,032	86,083	90,460	129,343	21,319	41,616	–	629,350
Operating expenses	(15,107)	(32,858)	(24,373)	(29,007)	(32,881)	(47,267)	(13,679)	(28,924)	–	(224,096)
Credit impairment losses	(2,442)	(29,378)	(23,434)	(28,367)	(17,636)	(28,116)	(6,650)	(2,582)	–	(138,605)
Impairment losses on other assets	(69)	14	76	11	1	(107)	(78)	34	–	(118)
Operating profit	35,794	54,863	42,301	28,720	39,944	53,853	912	10,144	–	266,531
Share of results of associates and joint ventures	10	–	–	–	–	–	–	35	–	45
Profit before tax	35,804	54,863	42,301	28,720	39,944	53,853	912	10,179	–	266,576
Income tax expense										(53,652)
Profit for the year										212,924
Depreciation and amortization included in operating expenses	1,324	3,078	2,542	3,037	3,029	4,075	1,185	441	–	18,711
Capital expenditure	1,867	1,763	1,375	1,684	2,397	4,091	884	2,786	–	16,847
As at 31 December 2019										
Segment assets	6,353,747	5,027,205	3,080,472	4,298,291	3,562,994	4,854,865	1,041,973	1,187,050	(4,650,058)	24,756,539
Including: Investment in associates and joint ventures	207	–	–	–	–	–	–	6,465	–	6,672
Unallocated assets										120,952
Total assets										24,877,491
Include: non-current assets (1)	11,592	32,067	19,404	29,526	28,042	42,169	11,477	24,704	–	198,981
Segment liabilities	(4,411,873)	(5,050,147)	(3,089,422)	(4,326,587)	(3,570,710)	(4,873,329)	(1,052,150)	(1,139,664)	4,650,058	(22,863,824)
Unallocated liabilities										(59,806)
Total liabilities										(22,923,630)
Loan commitments and financial guarantee contracts	40,267	641,332	400,516	441,065	340,859	396,394	72,520	77,075	–	2,410,028

(1) Non-current assets include property and equipment, investment properties, right-of-use assets, land use rights, intangible assets and other long-term assets.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

Business operating segments

The details of the business operating segments are as follows:

Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products, corporate wealth management services and other types of corporate intermediary services.

Personal banking

The personal banking segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

Treasury operations

The Group's treasury operations conduct money market and repurchase transactions, debt instruments investments, precious metal transactions and derivative transactions for its own accounts or on behalf of customers.

Others

Others comprise components of the Group that are not attributable to any of the above segments, along with certain assets, liabilities, income or expenses of the Head Office that could not be allocated on a reasonable basis.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

Business operating segments (Continued)

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the year ended 31 December 2020					
External interest income	354,333	279,727	290,119	6,753	930,932
External interest expense	(120,316)	(194,091)	(68,422)	(3,024)	(385,853)
Inter-segment interest (expense)/income	(12,647)	168,042	(155,395)	–	–
Net interest income	221,370	253,678	66,302	3,729	545,079
Fee and commission income	55,436	33,274	496	1,960	91,166
Fee and commission expense	(10,044)	(6,490)	(5)	(82)	(16,621)
Net fee and commission income	45,392	26,784	491	1,878	74,545
Net trading gain	–	–	8,920	7,485	16,405
Net (loss)/gain on financial investments	(7,284)	(4,180)	1,440	2,712	(7,312)
Net gain on derecognition of financial assets measured at amortized cost	–	–	1	–	1
Other operating income	1,375	1,321	25	27,893	30,614
Operating income	260,853	277,603	77,179	43,697	659,332
Operating expenses	(71,055)	(101,669)	(24,700)	(32,473)	(229,897)
Credit impairment losses	(112,122)	(37,359)	(13,706)	(1,512)	(164,699)
Impairment losses on other assets	(156)	4	–	(52)	(204)
Operating profit	77,520	138,579	38,773	9,660	264,532
Share of results of associates and joint ventures	–	–	–	518	518
Profit before tax	77,520	138,579	38,773	10,178	265,050
Income tax expense					(48,650)
Profit for the year					216,400
Depreciation and amortization included in operating expenses	4,397	11,209	3,544	401	19,551
Capital expenditure	4,076	12,708	4,491	1,447	22,722
At 31 December 2020					
Segment assets	8,618,358	6,372,074	11,586,282	494,978	27,071,692
Including: Investment in associates and joint ventures	–	–	–	8,865	8,865
Unallocated assets					133,355
Total assets					27,205,047
Segment liabilities	(8,590,691)	(12,926,172)	(3,129,836)	(292,928)	(24,939,627)
Unallocated liabilities					(54,674)
Total liabilities					(24,994,301)
Loan commitments and financial guarantee contracts	2,146,637	1,022,667	–	–	3,169,304

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

Business operating segments (Continued)

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the year ended 31 December 2019					
External interest income	340,663	241,427	285,030	6,020	873,140
External interest expense	(113,527)	(187,247)	(68,698)	(2,798)	(372,270)
Inter-segment interest (expense)/income	(3,271)	159,577	(156,306)	–	–
Net interest income	223,865	213,757	60,026	3,222	500,870
Fee and commission income	52,997	33,415	152	1,752	88,316
Fee and commission expense	(7,638)	(7,695)	(2)	(54)	(15,389)
Net fee and commission income	45,359	25,720	150	1,698	72,927
Net trading gain	–	–	11,570	7,497	19,067
Net gain/(loss) on financial investments	424	(445)	4,438	1,376	5,793
Other operating income	1,465	1,547	2,918	24,763	30,693
Operating income	271,113	240,579	79,102	38,556	629,350
Operating expenses	(74,423)	(97,310)	(24,792)	(27,571)	(224,096)
Credit impairment losses	(86,174)	(49,699)	(1,407)	(1,325)	(138,605)
Impairment losses on other assets	(131)	53	(4)	(36)	(118)
Operating profit	110,385	93,623	52,899	9,624	266,531
Share of results of associates and joint ventures	–	–	–	45	45
Profit before tax	110,385	93,623	52,899	9,669	266,576
Income tax expense					(53,652)
Profit for the year					212,924
Depreciation and amortization included in operating expenses	4,340	10,641	3,361	369	18,711
Capital expenditure	2,884	8,389	2,937	2,637	16,847
At 31 December 2019					
Segment assets	7,710,290	5,826,866	10,771,924	477,459	24,756,539
Including: Investment in associates and joint ventures	–	–	–	6,672	6,672
Unallocated assets					120,952
Total assets					24,877,491
Segment liabilities	(8,021,219)	(11,885,863)	(2,707,432)	(249,310)	(22,863,824)
Unallocated liabilities					(59,806)
Total liabilities					(22,923,630)
Loan commitments and financial guarantee contracts	1,565,535	844,493	–	–	2,410,028

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

County Area and Urban Area segments

The Group's operating segments organized by County Area and Urban Area banking business are set out as follows:

County Area banking business

The Group's County Area banking business provides a broad range of financial products and services to customers in designated County Area, through its operating branches in the counties or county-level cities throughout the PRC. The products and services mainly comprise loans, deposits, bank cards, and other types of intermediary services.

Urban Area banking business

The Group's Urban Area banking business comprises all banking activities outside of the County Area banking business, overseas branches and subsidiaries.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

County Area and Urban Area segments *(Continued)*

	County Area banking business	Urban Area banking business	Eliminations	Consolidated total
For the year ended 31 December 2020				
External interest income	230,691	700,241	–	930,932
External interest expense	(121,062)	(264,791)	–	(385,853)
Inter-segment interest income/(expense)	122,135	(122,135)	–	–
Net interest income	231,764	313,315	–	545,079
Fee and commission income	35,742	55,424	–	91,166
Fee and commission expense	(6,439)	(10,182)	–	(16,621)
Net fee and commission income	29,303	45,242	–	74,545
Net trading gain	221	16,184	–	16,405
Net (loss)/gain on financial investments	(4,001)	(3,311)	–	(7,312)
Net gain on derecognition of financial assets measured at amortized cost	–	1	–	1
Other operating income	4,507	26,107	–	30,614
Operating income	261,794	397,538	–	659,332
Operating expenses	(91,401)	(138,496)	–	(229,897)
Credit impairment losses	(52,276)	(112,423)	–	(164,699)
Impairment losses on other assets	(27)	(177)	–	(204)
Operating profit	118,090	146,442	–	264,532
Share of results of associates and joint ventures	–	518	–	518
Profit before tax	118,090	146,960	–	265,050
Income tax expense				(48,650)
Profit for the year				216,400
Depreciation and amortization included in operating expenses	7,567	11,984	–	19,551
Capital expenditure	6,990	15,732	–	22,722
At 31 December 2020				
Segment assets	9,638,372	17,570,020	(136,700)	27,071,692
Including: Investment in associates and joint ventures	–	8,865	–	8,865
Unallocated assets				133,355
Total assets				27,205,047
Segment liabilities	(8,942,453)	(16,133,874)	136,700	(24,939,627)
Unallocated liabilities				(54,674)
Total liabilities				(24,994,301)
Loan commitments and financial guarantee contracts	970,680	2,198,624	–	3,169,304

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

County Area and Urban Area segments *(Continued)*

	County Area banking business	Urban Area banking business	Eliminations	Consolidated total
For the year ended 31 December 2019				
External interest income	205,982	667,158	–	873,140
External interest expense	(116,959)	(255,311)	–	(372,270)
Inter-segment interest income/(expense)	115,125	(115,125)	–	–
Net interest income	204,148	296,722	–	500,870
Fee and commission income	34,022	54,294	–	88,316
Fee and commission expense	(6,155)	(9,234)	–	(15,389)
Net fee and commission income	27,867	45,060	–	72,927
Net trading gain	632	18,435	–	19,067
Net (loss)/gain on financial investments	(5)	5,798	–	5,793
Other operating income	4,097	26,596	–	30,693
Operating income	236,739	392,611	–	629,350
Operating expenses	(90,654)	(133,442)	–	(224,096)
Credit impairment losses	(48,228)	(90,377)	–	(138,605)
Impairment losses on other assets	(86)	(32)	–	(118)
Operating profit	97,771	168,760	–	266,531
Share of results of associates and joint ventures	–	45	–	45
Profit before tax	97,771	168,805	–	266,576
Income tax expense				(53,652)
Profit for the year				212,924
Depreciation and amortization included in operating expenses	7,533	11,178	–	18,711
Capital expenditure	4,790	12,057	–	16,847
At 31 December 2019				
Segment assets	8,699,610	16,171,807	(114,878)	24,756,539
Including: Investment in associates and joint ventures	–	6,672	–	6,672
Unallocated assets				120,952
Total assets				24,877,491
Segment liabilities	(8,085,320)	(14,893,382)	114,878	(22,863,824)
Unallocated liabilities				(59,806)
Total liabilities				(22,923,630)
Loan commitments and financial guarantee contracts	729,244	1,680,784	–	2,410,028

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS

(1) The Group and the MOF

As at 31 December 2020, the MOF directly owned 35.29% (31 December 2019: 35.29%) of the ordinary shares of the Bank.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditure, and establishing and enforcing taxation policies. It reports to the Chinese State Council.

The Group had the following balances and transactions with the MOF in its ordinary course of business under normal commercial terms:

	31 December 2020	
	Balance	Ratio to similar transactions
Assets		
Treasury bonds and special government bond	754,668	9.65%
Receivable from the MOF	316,656	4.05%
Liabilities		
Amount payable to the MOF	711	0.14%
Due to customers	8,385	0.04%
— redemption of treasury bonds on behalf of the MOF	4	–

	2020	
	Amount	Ratio to similar transactions
Interest income	30,376	3.26%
Interest expense	(100)	0.03%
Fee and commission income	1,294	1.42%
Net gain on financial investment	95	0.58%

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(1) The Group and the MOF (Continued)

	31 December 2019	
	Balance	Ratio to similar transactions
Assets		
Treasury bonds and special government bond	643,568	8.67%
Receivable from the MOF	307,723	4.15%
Other accounts receivable	1,004	0.77%
Liabilities		
Amount payable to the MOF	520	0.13%
Due to customers	7,772	0.04%
Other liabilities		
— redemption of treasury bonds on behalf of the MOF	4	–
— amount payable to the MOF	41	0.01%

	2019	
	Amount	Ratio to similar transactions
Interest income	30,195	3.46%
Interest expense	(253)	0.07%
Fee and commission income	1,552	1.76%
Net gain on financial investment	162	0.85%

Interest rate ranges for transactions with the MOF during the year are as follows:

	Year ended 31 December	
	2020	2019
	%	%
Treasury bonds and receivable from the MOF	**0.00–9.00**	0.13–9.00
Due to customers	**0.00–2.81**	0.00–3.41

The Group's redemption commitment for treasury bonds underwriting is disclosed in Note IV 42 Contingent Liabilities and Commitments.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(2) *The Group and Huijin*

Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of China Investment Corporation Limited, which is incorporated in Beijing, PRC. Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the Chinese State Council and does not engage in other commercial activities. Huijin exercises its legal rights and assumes obligations related to the Bank on behalf of the PRC Government.

As at 31 December 2020, Huijin directly owned 40.03% (31 December 2019: 40.03%) of the ordinary shares of the Bank.

Transactions with Huijin

The Group had the following balances and transactions with Huijin in its ordinary course of business. These balances and transactions are priced based on market prices and conducted under normal commercial terms.

	31 December 2020	
	Balance	**Ratio to similar transactions**
Assets		
Loans and advances to customers	**3,951**	**0.03%**
Financial investments	**67,509**	**0.86%**
Liabilities		
Due to customers	**5,447**	**0.03%**

	2020	
	Amount	**Ratio to similar transactions**
Interest income	**2,844**	**0.31%**
Interest expense	**(148)**	**0.04%**
Net gain/(loss) on financial investment	**29**	**0.18%**

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(2) The Group and Huijin (Continued)

Transactions with Huijin (Continued)

	31 December 2019	
	Balance	Ratio to similar transactions
Assets		
Loans and advances to customers	22,024	0.17%
Financial investments	68,455	0.92%
Liabilities		
Due to customers	1,862	0.01%

	2019	
	Amount	Ratio to similar transactions
Interest income	2,314	0.27%
Interest expense	(270)	0.07%
Net gain/(loss) on financial investment	65	0.34%

Interest rate ranges for transactions with Huijin during the year are as follows:

	Year ended 31 December	
	2020	2019
	%	%
Loans and advances to customers	**3.55–3.92**	3.92–4.35
Financial investments	**2.15–5.15**	2.84–5.15
Due to customers	**1.73–2.25**	1.38–2.25

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(2) The Group and Huijin (Continued)

Transactions with companies under Huijin

Huijin has equity interests in certain other banks and financial institutions under the direction of the Central Government. The Group enters into transactions with these banks and financial institutions in the ordinary course of business. These balances and transactions are priced based on market prices and conducted under normal commercial terms. Corresponding balances with these banks and financial institutions were as follows:

	31 December 2020	
	Balance	Ratio to similar transactions
Assets		
Deposits with banks and other financial institutions	89,726	20.67%
Placements with and loans to banks and other financial institutions	100,125	18.31%
Derivative financial assets	17,137	27.67%
Financial assets held under resale agreements	27,349	3.35%
Loans and advances to customers	64,047	0.44%
Financial investments	731,695	9.35%
Liabilities		
Deposits from banks and other financial institutions	92,890	6.66%
Placements from banks and other financial institutions	147,049	37.64%
Derivative financial liabilities	11,259	17.25%
Financial assets sold under repurchase agreements	48,444	44.36%
Due to customers	3,921	0.02%
Equity		
Other equity instruments	2,000	0.63%
Off-balance sheet items		
Non-principal guaranteed wealth management products issued by the Bank	3,000	0.15%

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(2) *The Group and Huijin* (Continued)

Transactions with companies under Huijin (Continued)

	31 December 2019	
	Balance	Ratio to similar transactions
Assets		
Deposits with banks and other financial institutions	63,637	26.99%
Placements with and loans to banks and other financial institutions	61,520	11.76%
Derivative financial assets	4,360	17.48%
Financial assets held under resale agreements	94,067	13.28%
Loans and advances to customers	53,117	0.41%
Financial investments	768,800	10.36%
Liabilities		
Deposits from banks and other financial institutions	157,640	10.48%
Placements from banks and other financial institutions	94,756	29.12%
Derivative financial liabilities	5,518	18.67%
Financial assets sold under repurchase agreements	1,309	2.46%
Due to customers	1,438	0.01%
Equity		
Other equity instruments	2,000	1.00%
Off-balance sheet items		
Non-principal guaranteed wealth management products issued by the Bank	5,002	0.29%

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(3) National Council for Social Security Fund of the People's Republic of China

On 25 September 2019, the Ministry of Finance transferred its 3.92% of the Bank's common stock equity to the National Council for Social Security Fund of the People's Republic of China ("SSF") for a one-time transfer. As at 31 December 2020 and 31 December 2019, the Bank's shares held by SSF accounted for 6.95% of the Bank's total share capital. The daily business transactions between the Group and the SSF are priced based on market prices and conducted on normal commercial terms. The Group had the following balances and transactions with the SSF:

	31 December 2020	
	Balance	**Ratio to similar transactions**
Assets		
Financial assets held under resale agreements	**33,966**	**4.16%**
Liabilities		
Due to customers	**51,827**	**0.25%**

	2020	
	Amount	**Ratio to similar transactions**
Interest income	**158**	**0.02%**
Interest expense	**(2,026)**	**0.53%**

	31 December 2019	
	Balance	Ratio to similar transactions
Assets		
Financial assets held under resale agreements	25,854	3.65%
Liabilities		
Due to customers	55,815	0.30%

	2019	
	Amount	Ratio to similar transactions
Interest income	177	0.02%
Interest expense	(1,810)	0.49%

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(3) National Council for Social Security Fund of the People's Republic of China (Continued)

Interest rate ranges for transactions with SSF during the interim period are as follows:

	Year ended 31 December	
	2020	2019
	%	%
Financial assets held under resale agreements	**0.63–3.35**	0.87–5.05
Due to customers	**0.30–5.20**	0.30–5.20

(4) The Group and other government related entities

Other than disclosed above, a significant portion of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other State controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency services, underwriting and distribution of bonds issued by government agencies, purchase, sales and redemption of investment securities issued by government agencies.

Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other State controlled entities.

(5) The Bank and its subsidiaries

The Bank had the following balances and transactions with its subsidiaries in its ordinary course of business. These balances and transactions are priced based on market prices and conducted under normal commercial terms.

	31 December 2020	
	Balance	**Ratio to similar transactions**
Assets		
Placements with and loans to banks and other financial institutions	**87,643**	**16.02%**
Financial assets held under resale agreements	**1,786**	**0.22%**
Financial investments	**6,230**	**0.08%**
Other assets	**24**	**0.02%**
Liabilities		
Deposits from banks and other financial institutions	**18,657**	**1.34%**
Due to customers	**1,624**	**0.01%**
Other liabilities	**753**	**0.14%**
Off-balance sheet items		
Letters of guarantee issued and guarantees	**8,482**	**3.21%**
Non-principal guaranteed wealth management products issued by the Bank	**331**	**0.02%**

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(5) *The Bank and its subsidiaries (Continued)*

	2020	
	Amount	**Ratio to similar transactions**
Interest income	**1,568**	**0.17%**
Net gain on financial investments	**107**	**0.65%**
Fee and commission income	**1,807**	**1.98%**
Other operating income	**9**	**0.03%**
Interest expense	**(373)**	**0.10%**
Fee and commission expense	**(909)**	**5.47%**
Operating expense	**(197)**	**0.09%**

	31 December 2019	
	Balance	Ratio to similar transactions
Assets		
Placements with and loans to banks and other financial institutions	88,805	16.97%
Financial investments	2,709	0.04%
Other assets	21	0.02%
Liabilities		
Deposits from banks and other financial institutions	10,895	0.72%
Due to customers	950	0.01%
Other liabilities	1,040	0.25%
Off-balance sheet items		
Letters of guarantee issued and guarantees	12,557	5.81%

	2019	
	Amount	Ratio to similar transactions
Interest income	792	0.09%
Fee and commission income	1,506	1.71%
Other operating income	1	–
Interest expense	(253)	0.07%
Fee and commission expense	(268)	1.74%
Operating expense	(143)	0.06%

	As at 31 December	
	2020	2019
	%	%
Placements with and loans to banks and other financial institutions	**0.04–4.10**	0.53–3.60
Financial assets held under resale agreements	**1.44–2.96**	1.00–4.70
Financial investments	**2.50–4.70**	3.30–4.70
Loans and advances to customers	**N/A**	4.60–4.60
Deposits from banks and other financial institutions	**0.00–4.13**	0.01–3.10
Due to customers	**0.30–3.15**	0.30–3.85

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(6) The Group and its associates and joint venture

The Group had the following balances and transactions with its associates and joint venture in its ordinary course of business. These balances and transactions are priced based on market prices and conducted under normal commercial terms.

	2020	
	Amount	**Ratio to similar transactions**
Interest income	**1**	**–**

	2019	
	Amount	Ratio to similar transactions
Interest income	–	–

	Year ended 31 December	
	2020	2019
	%	%
Placements with and loans to banks and other financial institutions	**2.00–2.44**	–

(7) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group. Key management personnel of the Group, their close relatives, and entities that are controlled, jointly controlled, or significantly influenced by either the key management personnel of the Group or their close relatives, are considered as related parties of the Group. The Group enters into banking transactions with above related parties in the normal course of business. As at 31 December 2020, the balance of loans and advances to the above related parties is RMB6.85 million (31 December 2019: RMB9,536.42 million).

The remuneration of Directors and other members of key management during the years was as follows:

	Year ended 31 December	
	2020	2019
Salaries, bonuses and staff welfare	**9.99**	13.55

According to the regulations of the relevant authorities in the PRC, the key management personnel's final emoluments for the year ended 31 December 2020 have not been finalized. Management of the Group believes that the difference between the final emoluments and that disclosed above will not have significant impact on the consolidated financial statements of the Group. The final compensation will be disclosed in a separate announcement when determined.

The compensation of key management personnel for the year ended 31 December 2019 was not decided at the time when the Group's 2019 consolidated financial statements were released and the amount of remuneration of Directors and other members of key management recognized in the consolidated income statement for the year of 2019 was RMB9.97 million. Supplementary announcement on final compensation of RMB13.55 million was released by the Bank on 28 September 2020. The comparative figures for the year of 2019 have been restated accordingly.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(8) Related natural persons transactions

The Group issued loan and credit card business to related natural persons (as defined in the Administrative Measures on Information Disclosure of Listed Companies issued by the CSRC). As at 31 December 2020, the balance of such loan amounted to RMB12.87 million (31 December 2019: RMB7.49 million).

As at 31 December 2020, the Bank's balance of credit related transactions to the related natural persons, and entities that are controlled, jointly controlled, or significantly influenced by either the key management personnel of the Group or their close relatives as defined in the Administration of Connected Transactions between Commercial Banks and Their Insiders totalled RMB3.06 billion (31 December 2019: RMB13.07 billion), and did not have any non credit transaction balance (31 December 2019: RMB1.41 billion).

(9) The Group and the Annuity Scheme

The Group had the following balances and transactions with the Annuity Scheme set up by the Bank apart from the obligation for defined contribution to the Annuity Scheme:

	31 December 2020	
	Balance	**Ratio to similar transactions**
Deposits from Annuity Scheme	**4,326**	**0.02%**

	2020	
	Amount	**Ratio to similar transactions**
Interest expense	**(185)**	**0.05%**

	31 December 2019	
	Balance	Ratio to similar transactions
Deposits from Annuity Scheme	3,196	0.02%

	2019	
	Amount	Ratio to similar transactions
Interest expense	(157)	0.04%

Interest rate range for transactions with the Annuity Scheme during the year is as follows:

	Year ended 31 December	
	2020	2019
	%	%
Deposits from Annuity Scheme	**0.00–5.00**	0.00–5.00

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(10) Proportion of transactions with major related parties

Related party transactions with subsidiaries have been offset in the process of preparing consolidated financial statements. When calculating the proportion of related party transactions, related party transactions do not include related party transactions with subsidiaries.

Transaction Balance

	As at 31 December 2020		As at 31 December 2019	
	Related party transactions	Proportion	Related party transactions	Proportion
Deposits from banks and other financial institutions	89,726	20.67%	63,637	26.99%
Placements with and loans to banks and other financial institutions	100,125	18.31%	61,520	11.76%
Derivative financial assets	17,137	27.67%	4,360	17.48%
Financial assets held under resale agreements	61,315	7.51%	119,921	16.92%
Loans and advances to customers	67,998	0.47%	75,141	0.59%
Financial investments	1,870,528	23.91%	1,788,546	24.09%
Other asset	–	–	1,004	0.77%
Deposits from banks and other financial institutions	92,890	6.66%	157,640	10.48%
Placements from banks and other financial institutions	147,049	37.64%	94,756	29.12%
Derivative financial liabilities	11,259	17.25%	5,518	18.67%
Financial assets sold under repurchase agreements	48,444	44.36%	1,309	2.46%
Due to customers	69,580	0.34%	66,887	0.35%
Other liabilities	715	0.14%	565	0.14%
Other equity instruments	2,000	0.63%	2,000	1.00%
Non-principal guaranteed wealth management products issued by the Bank	3,000	0.15%	5,002	0.29%

Transaction amount

	2020		2019	
	Related party transactions	Proportion	Related party transactions	Proportion
Interest income	33,379	3.59%	32,686	3.74%
Interest expense	(2,274)	0.59%	(2,333)	0.63%
Net gain on financial investment	124	0.76%	227	1.19%
Fee and commission income	1,294	1.42%	1,552	1.76%

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 STRUCTURED ENTITIES

(1) Consolidated structured entities

Principal guaranteed WMPs sponsored and managed by the Group

Principal guaranteed WMPs sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities are measured at fair value through profit or loss, respectively.

Other consolidated structured entities

Other structured entities consolidated by the Group include certain trust investment plans, asset management plans, funds and securitization products issued, managed and/or invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

As at 31 December 2020, the total assets of these consolidated structured entities were RMB241,504 million (31 December 2019: RMB464,477 million).

(2) Unconsolidated structured entities

Unconsolidated structured entities sponsored and managed by the Group

Unconsolidated structured entities sponsored and managed by the Group mainly include non-principal guaranteed WMPs, which are not subject to any guarantee by the Group of the principal invested or interest to be paid. The WMPs invest in a range of primarily fixed-rate assets, most typically money market instruments, debt securities and loan assets. As the manager of these WMPs, the Group invests, on behalf of the investors in these WMPs, the funds raised in the assets as described in the investment plan related to each WMP and receives fee and commission income.

As at 31 December 2020, the total assets invested by these WMPs amounted to RMB2,170,621 million (31 December 2019: RMB1,960,701 million) and the corresponding outstanding WMPs issued by the Group amounted to RMB1,949,722 million (31 December 2019: RMB1,727,350 million). During the year ended 31 December 2020, the Group's interest in these WMPs included net fee and commission income of RMB6,243 million (2019: RMB4,971 million) and net interest income of 632 million (2019: RMB574 million), which related to placements and repo transactions entered into by the Group with these WMP Vehicles.

The Group enters into placements and repo transactions at market interest rates with these WMPs. The average balance during 2020 and the outstanding balance as at 31 December 2020 of these transactions were RMB23,423 million (weighted average outstanding period of 6.25 days) (2019: RMB15,810 million and 5.29 days) and RMB143,545 million (31 December 2019: RMB116,900 million), respectively. The Group was under no obligation to enter into these transactions. As at 31 December 2020 and 31 December 2019, the outstanding balance of these transactions was presented in placements with and loans to banks and other financial institutions and financial assets held under resale agreements, which represented the Group's maximum exposure to the WMPs.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 STRUCTURED ENTITIES (Continued)

(2) Unconsolidated structured entities (Continued)

Unconsolidated structured entities sponsored and managed by the Group (Continued)

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMPs or any third parties that could increase the level of the Group's risk from WMPs disclosed above during the period ended 31 December 2020 and 31 December 2019. The Group was not required to absorb any losses incurred by WMPs. During the period ended 31 December 2020 and 2019, no loss was incurred by these WMPs relating to the Group's interests in these WMPs, and the WMPs did not experience difficulty in financing their activities.

In addition, other unconsolidated structured entities sponsored and managed by the Group included funds, asset management plans and asset-backed securities. As at 31 December 2020, the total assets of these products amounted to RMB440,726 million (31 December 2019: RMB478,339 million). During the year ended 31 December 2020, the Group's interest in these products mainly included net fee and commission income of 830 million (2019: RMB797 million).

Other unconsolidated structured entities held by the Group

The Group invests in other unconsolidated structured entities which are sponsored and managed by other entities for investment return, and records trading gains or losses and interest income therefrom. These unconsolidated structured entities primarily include asset management plans, funds, trust plans and asset-backed securities. As at 31 December 2020, the related carrying amount of investments and the maximum exposure by the Group to these other unconsolidated structured entities was RMB92,193 million (31 December 2019: RMB73,521 million), included under the financial assets at fair value through profit or loss, other debt instrument investments at fair value through other comprehensive income and debt instrument investments at amortized cost categories in the consolidated statement of financial position. As at 31 December 2020. The information on the size of total assets of these unconsolidated structured entities was not readily available in the public domain.

42 CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings and others

The Bank and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at 31 December 2020, provisions of RMB5,560 million were made by the Group (31 December 2019: RMB4,490 million) based on court judgments or advice of legal counsel, and included in Note IV 31 Other Liabilities. Management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

On 28 September 2016, the Bank and its New York Branch entered into a Cease and Desist Order with the Board of Governors of the Federal Reserve System of the United States. On 4 November 2016, the Bank and its New York Branch entered into a Consent Order with New York State Department of Financial Services (the "Department") and paid a civil monetary penalty to the Department accordingly. As at 31 December 2016, the above-mentioned civil monetary penalty was paid and reflected in the consolidated financial statements for the year ended 31 December 2016.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Legal proceedings and others (Continued)

The Bank and its New York Branch are taking affirmative actions to respond to other requirements under these two orders. As at the date of these financial statements, the Group is of the view that it is not practicable to estimate whether there will be any further regulatory actions undertaken by the US regulators as this will be dependent upon the regulatory conclusion after the Bank's and its New York Branch's actions towards the other requirements under these two orders. As such, the Group did not accrue any further provision over this matter as at 31 December 2020.

Capital commitments

	As at 31 December	
	2020	2019
Contracted but not provided for	**2,507**	2,606

In addition, as at 31 December 2020 and 31 December 2019, the Group did not have outstanding equity investment commitments for its investee companies.

Loan commitments and financial guarantee contracts

	As at 31 December	
	2020	2019
Loan commitments		
— With an original maturity of less than 1 year	**207,288**	149,602
— With an original maturity of 1 year or above	**1,409,990**	907,194
Subtotal	**1,617,278**	1,056,796
Bank acceptances	**429,841**	339,829
Credit card commitments	**695,183**	646,134
Guarantee and letters of guarantee	**264,646**	216,229
Letters of credit	**162,356**	151,040
Total	**3,169,304**	2,410,028

Loan commitments and financial guarantee contracts represent credit cards and general credit facility limits granted to customers. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantee and letters of guarantee or bank acceptances.

Credit risk weighted amount for credit commitments

Credit risk weighted amount for credit commitments represents the counterparty credit risk associated with credit commitments and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC which was effective 1 January 2013 and is dependent on, among other factors, the creditworthiness of counterparties and maturity characteristics of each type of contract. As at 31 December 2020 and 31 December 2019, credit risk weighted amount for credit commitments was measured under the Internal Ratings — Based approach.

	As at 31 December	
	2020	2019
Credit risk weighted amount for credit commitments	**1,240,078**	1,063,652

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Collateral

Assets pledged

At the end of each reporting period, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	As at 31 December	
	2020	2019
Debt securities	**114,573**	55,738
Bills	**1,327**	1,978
Total	**115,900**	57,716

As at 31 December 2020, the financial assets sold under repurchase agreements by the Group (disclosed in Note IV 28) as at 31 December 2020 amounted to RMB109,195 million (31 December 2019: RMB53,197 million). Repurchase agreements are primarily due within 1 years from the effective dates of these agreements.

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note IV 43 Transferred Financial Assets.

In addition, debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions and borrowings from central banks etc. by the Group as at 31 December 2020 amounted to RMB1,026,931 million in total (31 December 2019: RMB863,190 million).

Collateral accepted

The Group received debt securities and bills as collateral in connection with the securities lending transactions and the purchase of assets under resale agreements (Note IV 16 Financial Assets Held Under Resale Agreements). The Group did not hold any collateral that can be resold or re-pledged as at 31 December 2020 and 31 December 2019.

Redemption commitment for treasury bonds

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at par at any time prior to maturity and the Group is committed to honor such redemption requests. The redemption price is calculated as the par value of the bond plus payable interest in accordance with the terms of the related early redemption arrangement.

As at 31 December 2020, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity was RMB67,622 million (31 December 2019: RMB75,795 million). The original maturities of these bonds vary from 3 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity.

Commitment on security underwriting

As at 31 December 2020 and 31 December 2019, the Group did not have unfulfilled commitment in respect of securities underwriting business.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business whereby it transfers recognized financial assets to third parties or to structured entities. In some cases these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group retains substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Securitization transactions

The Group enters into securitization transactions by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed, among other factors, whether or not to derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its control over these assets based on the criteria as detailed in Note II 8.7 and Note III 6.

As at 31 December 2020, the total amount of unexpired asset-backed securities included accumulative loans transferred by the Group before impairment allowance was RMB69,291 million (31 December 2019: RMB67,016 million). RMB14,130 million of this balance (31 December 2019: RMB11,855 million) was in respect of non-performing loans and the Group concluded that these loans transferred were qualified for full derecognition. The remaining balance of RMB55,161 million (31 December 2019: RMB55,161 million) was in respect of performing loans and the Group concluded that it had continuing involvement in these assets. As at 31 December 2020, the Group continued to recognize assets of RMB6,564 million (31 December 2019: RMB6,923 million) under loans and advances to customers. The Group also recognized other assets and other liabilities of the same amount arising from such continuing involvement.

Transfer of non-performing loans

During the year ended 31 December 2020, the Group transferred non-performing loans through disposal to third parties or issuing asset-back securities, with gross loan balance of RMB27,837 million (2019: RMB32,414 million). The Group carried out an assessment based on the criteria as detailed in Note II 8.7 and Note III 6 and concluded that these transferred assets qualified for full derecognition.

Financial assets sold under repurchase agreements

The Group did not derecognize financial assets transferred as collateral in connection with repurchase agreements. As at 31 December 2020, of these collateral pledged disclosed in Note IV 42 Contingent Liabilities and Commitments — Collateral, RMB4,050 million (31 December 2019: RMB2,955 million) represented debt securities whereby legal title has been transferred to counterparties.

Securities lending transactions

For debt securities lent to counterparties under securities lending agreements, the counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. As at 31 December 2020, the carrying amount of debt securities lent to counterparties was RMB17,150 million (31 December 2019: RMB12,368 million).

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT

Overview

The Group's primary risk management objective is to maintain risk within acceptable parameters to meet the requirements of regulators, depositors and other stakeholders, as well as to maximize return for investors within an acceptable level of risk.

The Group has designed risk management policies, which address, among other things, the establishment of risk limits and controls to identify, analyze, monitor and report risks. Relevant and timely information used to conduct these risk management activities is provided through information systems maintained by the Group and is intended to address the Group's information needs in this area. The Group regularly reviews its risk management policies and systems to address changes in markets, products and emerging best practices.

The most significant types of risk to which the Group is exposed are credit risk, market risk and liquidity risk. Market risk includes foreign exchange rate risk, interest rate risk and other price risk.

Risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving its risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal rules, measures and procedures related to risk management. The Risk Management Department of the Group implements procedures for managing the significant risks to which the Group is exposed.

44.1 Credit risk

Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations when due. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advance, commitment or investment. The Group's major credit risks arise from loans and advances, treasury operations and off-balance sheet related credit risk exposures.

The Group's credit risk management and governance structure comprise the Board of Directors and its Risk Management Committee, Senior Management and its Risk Management Committee, Credit Approval Committee and Asset Disposal Committee, as well as the Risk Management Department, Credit Management Department, Credit Approval Department and related front-office customer departments. The Group's credit risk management function operates under a centralized management and authorization under a range of specified limits.

The Group performs standardized credit management procedures, including credit due diligence and proposal submission, credit underwriting review, loan disbursement, post-lending monitoring and non-performing loan management. The Group enhances its credit risk management by strictly complying with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post-lending monitoring measures; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrading its credit management system.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Credit risk management (Continued)

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity and where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during year ended 31 December 2020 was RMB49,375 million (During the year ended 31 December 2019: RMB51,398 million). The Group still seeks to recover amounts it is legally owned in full, but which have been written off due to no reasonable expectation of full recovery.

During the reporting period, the Group continued to improve the comprehensive risk management system to ensure effective risk management. The Group strengthened credit risk management in key areas and asset quality control. Considering COVID-19 prevention and collection and disposal of non-performing loans, the group accelerated the disposal of non-performing loans to ensure the stability of assets quality.

Apart from the credit risk exposures on credit-related assets, the credit risk arising from treasury operation business is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and applying appropriate limits subject to different level of management authority, and timely reviewing and adjusting those limits in credit system. In addition, the Group also provide loan commitments and financial guarantee services to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the related contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures.

Measurement of ECL

The Group applies the ECL model to calculate loss allowances for its debt financial instruments measured at amortized cost and FVOCI, as well as loan commitments and financial guarantee contracts.

Methods applied by the Group in assessing the expected credit losses of its financial assets include risk parameters model and the discounted cash flow ("DCF") model. Retail credit assets and Stage I and Stage II wholesale credit assets are assessed using risk parameters, while Stage III wholesale credit assets are subject to the discounted cash flow method.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Measurement of ECL (Continued)

The Group assesses ECL in light of forward-looking information and uses complex models and assumptions in calculating the expected credit losses. These models and assumptions relate to the future macroeconomic conditions and the borrowers' creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). In assessing the expected credit risks in accordance with accounting standards, the Group uses the judgments, assumptions and estimates where appropriate, including:

— Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL

— Parameters for measuring ECL

— Criteria for significant increase in credit risk and default definition

— Definition of credit-impaired financial asset

— Forward-looking information

— Estimation of future cash flows for Stage III wholesale credit assets

Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL

For measurement of ECL, segmentation of portfolio is based on similar credit risk characteristics. The Group classified clients into wholesale clients and retail clients based on the nature of debtors. In performing the portfolio segmentation of wholesale credit assets, the Group considers the type of borrower, industry, loan usage, and security type. When performing the portfolio segmentation for retail credit assets, the Group considers loan product type and security type to ensure the reliability of its credit risk segmentation.

Parameters for measuring ECL

According to whether there is a significant increase in credit risk and whether a financial asset has become credit-impaired, the Group recognizes an impairment allowance based on the expected credit loss for the next 12 months or the entire lifetime of the financial asset. The relevant parameters of ECL measurement include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group establishes its PD models, LGD models and EAD models based on the internal rating based system as currently used for its risk management purpose, in accordance with the requirements of IFRS 9, in light of quantitative analyzes of historical statistics (such as counterparty ratings, guarantee methods and collateral types, repayment methods, etc.) and forward-looking information.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Measurement of ECL (Continued)

Parameters for measuring ECL (Continued)

The parameters are defined as follows:

— PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months ("12m PD"), or over the remaining lifetime ("Lifetime PD") of the obligation;

— EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months ("12m EAD") or over the remaining lifetime ("Lifetime EAD").

— LGD represents the Group's expectation of the extent of loss on defaulted exposure. It varies depending on the type of counterparty, method of recourse and priority, and the availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

Criteria for significant increase in credit risk ("SICR") and default definition

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. For the purpose of staging assessment of its financial assets, the Group thoroughly considers various reasonable and supportable information that may reflect whether or not there has been a significant change in their credit risk, including forward-looking information. Key factors considered include regulatory and operating environments, internal and external credit ratings, solvency, viability as a going concern, terms of loan contracts, repayment behaviors, among others. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments. The definition of default refers to the failure to pay the debt as agreed in the contract, or other violations of the debt contract and have a significant impact on the normal debt repayment.

The Group sets quantitative and qualitative criteria to determine whether or not the credit risk of a financial instrument has increased significantly since its initial recognition. The criteria include changes in the borrower's PD, changes in its credit risk classification and other factors. In particular, when the credit risk classification changes from Normal upon initial recognition to Special Mention, there has been SICR. When the borrower's PD rises to a certain level, there has been a significant increase in credit risk. Criteria to determine significant increase in credit risk varied based on the original PD upon initial recognition. If the borrower's original PD is relatively low (for example, lower than 3%), there has been a significant increase in credit risk when the credit grade falls at least 6 notches. If the criteria to determine significant increase in credit risk moves up or down by one notch, the impact on the allowance of expected credit loss on 31 December 2020 is less than 5%. According to IFRS 9, a backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The Group recognizes a financial instrument as having low credit risk if its internal rating is consistent with the globally accepted definition for low credit risk.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

***Measurement of ECL** (Continued)*

Definition of credit-impaired financial asset

The criteria adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives for relevant financial instruments, in addition to consideration of quantitative and qualitative indicators. In assessing whether a borrower has become credit-impaired, the Group mainly considers the following factors:

— Significant financial difficulty of the issuer or the borrower;

— A breach of contract, such as a default or past due event in relation to interest or principal payment;

— The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

— It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

— The disappearance of an active market for that financial asset because of financial difficulties;

— The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;

— The borrower is overdue for more than 90 days in any principal, advances, interest or investment in bonds due to the Group.

The credit impairment of a financial asset may be caused by the combined effect of multiple events rather than any single discrete event.

Forward-looking information

The assessment of whether or not there has been a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the macro-economic indicators that affect the credit risk and ECL of various portfolio. Macro-economic indicators include Gross Domestic Product (GDP), Consumer Price Index (CPI) and Industrial Added Value, etc.

The impact of these economic indicators on the PDs and the LGDs varies from one portfolio to another. The Group comprehensively considers internal and external data, expert forecasts and statistical analysis to determine the correlation between these economic indicators and the PDs and LGDs. The Group assesses and forecasts these economic indicators at least on an annual basis, calculates the best estimates for the future, and regularly reviews and assesses results.

In 2020, the forecast value of 2021 GDP growth rate under each scenario is as follows: 8.80% under base scenario, 11.12% under upside scenario, and 6.48% under downside scenario.

Based on statistical analysis and expert judgements, the Group determines the weightings of multiple scenarios and the corresponding macro-economic forecast under each scenario. The weighting of base scenario is greater than the aggregated weightings of the rest scenarios. The Group uses the weighted 12-month ECL (Stage I) or weighted lifetime ECL (Stage II and Stage III) to measure relevant impairment allowances. These weighted credit losses are calculated by multiplying the expected credit loss under each scenario by the assigned scenario weighting.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Measurement of ECL (Continued)

Forward-looking information (Continued)

A sensitivity analysis is performed on key economic indicators, economic scenarios and weightings assigned used in forward-looking measurement. When the assigned weightings of upside scenario and downside scenario change by 10% and the forecast of key economic indicators change accordingly, the impact on the allowance of expected credit loss is less than 5%.

When evaluating forward-looking information of ECL models in 2020, the Group comprehensively considered the impact of COVID-19 on the macro economic and banking industry, and the influence of government policies.

Estimation of future cash flows for Stage III wholesale credit assets

The Group measures the ECL for stage III wholesale credit assets using DCF method. Under DCF method, the loss allowance is calculated based on the estimation of future cash flows. At each measurement date, the Group projects the future cash inflows of relevant assets under different scenarios to estimate the probability weighted cash flow of each future period. The cash flows are discounted and aggregated to get the present value of the assets' future cash flows.

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of each reporting period, without taking into account any collateral held or other credit enhancements. The exposure to credit risk at the end of each reporting period primarily arises from credit and treasury operations; as well as off-balance sheet items such as loan commitments, credit card commitments, bank acceptances, guarantee and letters of guarantee and letters of credit, as credit risks arising from these items are similar to those associated with loans and receivables.

A summary of the maximum exposure to credit risk is as follows:

		As at 31 December	
		2020	2019
Balances with central banks		**2,360,994**	2,606,967
Deposits with banks and other financial institutions		**434,185**	235,742
Placements with and loans to banks and other financial institutions		**546,948**	523,183
Derivative financial assets		**61,937**	24,944
Financial assets held under resale agreements		**816,206**	708,551
Loans and advances to customers	(i)	**14,552,433**	12,819,764
Financial investments			
Financial assets at fair value through profit or loss		**469,308**	693,758
Debt instrument investments at amortized cost	(ii)	**5,684,220**	4,946,741
Other debt instrument investments at fair value through other comprehensive income	(iii)	**1,551,439**	1,671,746
Other financial assets		**101,562**	80,858
Subtotal		**26,579,232**	24,312,254
Loan commitments and financial guarantee contracts	(iv)	**3,133,548**	2,384,815
Total		**29,712,780**	26,697,069

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)

(i) Maximum exposure to credit risk for loans and advances disclosed in credit risk levels

The Group classified the credit risk levels of financial assets measured by ECL into "Low"(credit risk in good condition), "Medium"(increased credit risk), and "High"(credit risk in severe condition), based on the quality of assets. The credit risk level is used for the purpose of the group's internal credit risk management. "Low" refers to assets with good credit quality. There is no sufficient reason to doubt that the assets are not expected to fulfill its contractual obligation to repay or if there is any other behaviors breaching the debt contracts that would significantly impact the repayment of debt according to contract terms. "Medium" refers to assets facing obvious negative factors impacting its repayment capacity, but not yet have non-repayment behaviors. "High" refers to non-repayment according to the debt contract terms, or other behaviors breaching the debt contracts or having significant impact on the repayment of debt according to contract terms.

Corporate loans and advances	As at 31 December 2020		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	8,439,076	21,073	8,460,149
Medium	–	258,288	258,288
High	–	198,795	198,795
Gross carrying amount	8,439,076	478,156	8,917,232
Allowance for impairment loss	(269,354)	(189,331)	(458,685)
Net amount	8,169,722	288,825	8,458,547

Personal Loans and advances	As at 31 December 2020		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	6,134,472	–	6,134,472
Medium	–	46,047	46,047
High	–	38,318	38,318
Gross carrying amount	6,134,472	84,365	6,218,837
Allowance for impairment loss	(128,414)	(30,910)	(159,324)
Net amount	6,006,058	53,455	6,059,513

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements *(Continued)*

(i) Maximum exposure to credit risk for loans and advances disclosed in credit risk levels (Continued)

Corporate loans and advances	As at 31 December 2019		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	7,483,007	22,214	7,505,221
Medium	–	261,208	261,208
High	–	155,490	155,490
Gross carrying amount	7,483,007	438,912	7,921,919
Allowance for impairment loss	(237,105)	(163,829)	(400,934)
Net amount	7,245,902	275,083	7,520,985

Personal Loans and advances	As at 31 December 2019		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	5,337,918	–	5,337,918
Medium	–	37,193	37,193
High	–	31,720	31,720
Gross carrying amount	5,337,918	68,913	5,406,831
Allowance for impairment loss	(114,445)	(25,199)	(139,644)
Net amount	5,223,473	43,714	5,267,187

The above information on the maximum exposure to credit risk of loans and advances to customers does not include corresponding accured interests or loans and advances to customers measured at fair value through profit or loss.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)

(ii) Maximum exposure to credit risk for debt instrument investments at amortized cost disclosed in credit risk levels

	As at 31 December 2020		
	Stage I 12m ECL	**Stage II & Stage III Lifetime ECL**	**Total**
Credit risk grade			
Low	**5,697,187**	**–**	**5,697,187**
Medium	**–**	**2,064**	**2,064**
High	**–**	**1,073**	**1,073**
Gross carrying amount	**5,697,187**	**3,137**	**5,700,324**
Allowance for impairment loss	**(14,850)**	**(1,254)**	**(16,104)**
Net amount	**5,682,337**	**1,883**	**5,684,220**

	As at 31 December 2019		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	4,953,832	–	4,953,832
Medium	–	1,196	1,196
High	–	1,201	1,201
Gross carrying amount	4,953,832	2,397	4,956,229
Allowance for impairment loss	(8,409)	(1,079)	(9,488)
Net amount	4,945,423	1,318	4,946,741

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)

(iii) Maximum exposure to credit risk for other debt instrument investments at fair value through other comprehensive income disclosed in credit risk levels

	As at 31 December 2020		
	Stage I 12m ECL	**Stage II & Stage III Lifetime ECL**	**Total**
Credit risk grade			
Low	**1,545,343**	**–**	**1,545,343**
Medium	**–**	**6,030**	**6,030**
High	**–**	**66**	**66**
Gross carrying amount	**1,545,343**	**6,096**	**1,551,439**

	As at 31 December 2019		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	1,671,525	–	1,671,525
Medium	–	–	–
High	–	221	221
Gross carrying amount	1,671,525	221	1,671,746

(iv) Maximum exposure to credit risk for loan commitments and financial guarantee contracts is balance after estimated contingent liabilities. Majority of loan commitments and financial guarantee contracts is in Stage I with credit risk grade as "Low".

(v) As at 31 December 2020 and 31 December 2019, in its deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, and financial assets held under resale agreements, the Group had insignificant balances with "Medium" or "High" credit risk grade and classified as Stage II or Stage III assets, and no default had occurred.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)

(vi) The Group has implemented specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level. The most typical practice is obtaining guarantee deposits, collateral and guarantees. The amount and type of acceptable collateral are determined through the assessment of credit risk of borrowers or counterparties. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

The main types of collateral obtained are as follows:

— Mortgage loans to retail customers are generally collateralized by mortgages over residential properties;

— Other personal lending and corporate loans and advances are primarily collateralized by charges over land and properties or other assets of the borrowers; and

— Financial assets held under resale agreements transactions are primarily collateralized by debt securities and bills.

The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Loans and advances to customers (i)

The following tables set out the concentration of risk for loans and advances to customers by geographical area and industry.

(1) The composition of loans and advances to customers by geographical area is analyzed as follows:

	As at 31 December			
	2020		2019	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Head Office	350,679	3.9	318,970	4.0
Yangtze River Delta	1,996,025	22.4	1,710,643	21.6
Pearl River Delta	1,139,535	12.8	960,384	12.1
Bohai Rim	1,302,504	14.6	1,198,828	15.2
Central China	1,302,925	14.6	1,125,021	14.2
Western China	2,088,255	23.4	1,886,512	23.8
Northeastern China	344,039	3.9	316,802	4.0
Overseas and Others	393,322	4.4	404,759	5.1
Subtotal	8,917,284	100.0	7,921,919	100.0
Personal loans and advances				
Head Office	50	–	55	–
Yangtze River Delta	1,484,067	23.9	1,286,246	23.8
Pearl River Delta	1,331,142	21.4	1,175,768	21.7
Bohai Rim	912,175	14.7	802,153	14.8
Central China	997,845	16.0	857,033	16.0
Western China	1,265,565	20.4	1,083,958	20.0
Northeastern China	207,899	3.3	186,464	3.4
Overseas and Others	20,094	0.3	15,154	0.3
Subtotal	6,218,837	100.0	5,406,831	100.0
Gross loans and advances to customers	15,136,121		13,328,750	

(i) The below information does not include accrued interests of loans and advances to customers.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Loans and advances to customers (i) (Continued)

(2) The composition of loans and advances to customers by industry is analyzed as follows:

	As at 31 December			
	2020		2019	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Transportation, logistics and postal services	**1,915,191**	**21.5**	1,689,787	21.3
Manufacturing	**1,450,816**	**16.3**	1,291,327	16.3
Leasing and commercial services	**1,261,700**	**14.1**	1,047,843	13.2
Production and supply of power, heat, gas and water	**976,377**	**11.0**	900,036	11.4
Real estate	**798,017**	**8.9**	704,973	8.9
Water, environment and public utilities management	**621,772**	**7.0**	517,448	6.5
Retail and wholesale	**469,831**	**5.3**	386,064	4.9
Finance	**556,342**	**6.2**	623,570	7.9
Construction	**222,858**	**2.5**	233,961	2.9
Mining	**206,502**	**2.3**	212,201	2.7
Others	**437,878**	**4.9**	314,709	4.0
Subtotal	**8,917,284**	**100.0**	7,921,919	100.0
Personal loans and advances				
Residential mortgage	**4,662,632**	**75.0**	4,163,293	77.0
Personal business	**380,305**	**6.1**	264,980	4.9
Personal consumption	**196,859**	**3.2**	181,234	3.3
Credit cards	**542,563**	**8.7**	474,205	8.8
Others	**436,478**	**7.0**	323,119	6.0
Subtotal	**6,218,837**	**100.0**	5,406,831	100.0
Gross loans and advances to customers	**15,136,121**		13,328,750	

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Loans and advances to customers (i) (Continued)

(3) The composition of loans and advances to customers by contractual maturity and security type is analyzed as follows:

	31 December 2020			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	1,537,763	958,928	1,679,137	4,175,828
Guaranteed loans	619,901	428,989	640,554	1,689,444
Loans secured by collateral	1,062,045	521,244	5,395,327	6,978,616
Pledged loans	623,848	101,553	1,566,832	2,292,233
Total	**3,843,557**	**2,010,714**	**9,281,850**	**15,136,121**

	31 December 2019			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	1,273,415	765,757	1,403,329	3,442,501
Guaranteed loans	692,480	430,558	733,377	1,856,415
Loans secured by collateral	861,640	418,293	4,618,803	5,898,736
Pledged loans	657,142	102,480	1,371,476	2,131,098
Total	3,484,677	1,717,088	8,126,985	13,328,750

(4) Past due loans (ii)

	31 December 2020					
	Up to 30 days	31–90 days	91–360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	5,678	4,645	12,114	2,675	3,526	28,638
Guaranteed loans	10,136	2,890	11,336	9,287	2,020	35,669
Loans secured by collateral	32,138	20,145	33,540	26,513	6,636	118,972
Pledged loans	2,042	554	3,803	5,274	481	12,154
Total	**49,994**	**28,234**	**60,793**	**43,749**	**12,663**	**195,433**

	31 December 2019					
	Up to 30 days	31–90 days	91–360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	5,326	3,416	7,957	4,206	1,287	22,192
Guaranteed loans	13,441	3,554	13,259	10,899	3,090	44,243
Loans secured by collateral	28,893	14,514	25,747	25,865	8,396	103,415
Pledged loans	1,733	241	2,687	6,817	1,665	13,143
Total	49,393	21,725	49,650	47,787	14,438	182,993

(ii) When either loan principal or interest is past due by one day in any period, the whole loan is classified as past due loan.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Loans and advances to customers (i) (Continued)

(5) Credit quality of loans and advances to customers

As at 31 December 2020 and 31 December 2019, the credit quality of loans and advances to customers by stages is disclosed in Note IV 17.

(6) Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The gross carrying amount of the financial asset is recalculated and the related gain or loss is recognized in profit and loss. The gross carrying amount of the financial asset is determined based on the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after modified, so that the assets are moved from Stage 3 or Stage 2 to Stage 1, and the impairment allowance is measured at an amount equal to the 12-month ECL instead of the lifetime ECL.

In order to collect loans as much as possible, the Group may renegotiate the terms of the contract with borrowers because of deterioration in their financial position, or of the inability to meet their original repayment schedule. Such contract modifications include roll over of loan, extension of non-payment period or repayment period. Based on the management's judgment of the borrowers' repayment possibility, the Group has formulated specific rescheduled loan policy and practice, and reviewed the policy continuously. In most cases, medium and long-term loans are considered to reschedule. Rescheduled loans should be reviewed after at least 6 months of observation and reach the corresponding stage classification criteria. Concessions are given by the Group that would not otherwise be granted to these borrowers for economic or legal reasons relating to their financial difficulties. Rescheduled loans and advances of the Group as at 31 December 2020 amounted to RMB71,466 million (31 December 2019: RMB57,266 million).

During the period ended 31 December 2020, as a result of debt-for-equity swaps, the Group recognized ordinary shares upon renegotiation of RMB1,649 million (during the period ended 31 December 2019: RMB2,123 million). The loss associated with these debt-for equity swaps was not significant.

(7) Assets foreclosed under credit enhancement arrangement

Such foreclosed assets are disclosed in Note IV 18.1(2) Other financial assets at fair value through profit or loss and Note IV 23 Other assets.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Debt instruments

Credit quality of debt instruments

(1) Analysis of the expected credit loss stages of debt instrument investments at amortized cost and other debt instruments at fair value through other comprehensive income were disclosed in Note IV18.2 and 18.3, respectively.

(2) Debt instruments analyzed by credit rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The carrying amounts of debt instruments investments at amortized cost and other debt instrument investments at fair value through other comprehensive income analyzed by their credit rating as at the end of the reporting period are as follows:

		As at 31 December 2020			
Credit grade		**Low**	**Medium**	**High**	**Total**
Debt securities issued by					
— Governments		**4,288,607**	**–**	**–**	**4,288,607**
— Public sector and quasi-governments		**1,590,893**	**–**	**–**	**1,590,893**
— Financial institutions		**658,182**	**2,580**	**–**	**660,762**
— Corporates	(ii)	**247,717**	**4,796**	**66**	**252,579**
Special government bond		**94,125**	**–**	**–**	**94,125**
Receivable from the MOF		**316,656**	**–**	**–**	**316,656**
Others		**31,500**	**528**	**9**	**32,037**
Total		**7,227,680**	**7,904**	**75**	**7,235,659**

		As at 31 December 2019			
Credit grade		Low	Medium	High	Total
Debt securities issued by					
— Governments		3,540,555	–	–	3,540,555
— Public sector and quasi-governments		1,562,706	–	–	1,562,706
— Financial institutions		784,479	–	–	784,479
— Corporates	(ii)	294,375	–	221	294,596
Special government bond		94,127	–	–	94,127
Receivable from the MOF		307,723	–	–	307,723
Others		32,983	1,164	154	34,301
Total		6,616,948	1,164	375	6,618,487

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(2) Debt instruments analyzed by credit rating (Continued)

(i) The ratings as at 31 December 2020 and 31 December 2019 were internal ratings obtained from the Group, financial assets at fair value through profit or loss was not included in the credit grade table as at 31 December 2020 and 31 December 2019.

(ii) As at 31 December 2020, the ratings of super short-term commercial papers of the Group amounted to RMB341 million (31 December 2019: RMB15,834 million) included in corporate bonds above are based on issuer rating for this credit risk analysis.

44.2 Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The Group's Assets and Liabilities Management Department manages its liquidity risk through:

— Optimizing asset and liability structure;

— Maintaining stability of deposit base;

— Making projections of future cash flows, and evaluating the appropriate liquid asset position;

— Maintaining an efficient internal funds transfer mechanism within the Group; and

— Performing stress testing on a regular basis.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities

The tables below summarize the maturity analysis of financial assets and financial liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting period:

	31 December 2020								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Cash and balances with central banks	–	116,773	11,869	4,322	12,653	–	–	2,291,658	2,437,275
Deposits with banks and other financial institutions	–	86,976	17,494	57,867	258,811	13,037	–	–	434,185
Placements with and loans to banks and other financial institutions	17	–	209,386	155,901	151,016	29,328	1,300	–	546,948
Derivative financial assets	–	–	9,931	14,614	34,987	2,375	30	–	61,937
Financial assets held under resale agreements	3,689	–	755,438	33,315	23,764	–	–	–	816,206
Loans and advances to customers	20,062	–	543,994	812,515	3,009,584	2,858,842	7,307,436	–	14,552,433
Financial assets at fair value through profit or loss	5	11,416	40,928	61,053	138,374	107,775	100,896	122,622	583,069
Debt instrument investments at amortized cost	5	–	48,499	100,327	471,210	2,721,956	2,342,223	–	5,684,220
Other debt instrument and other equity investments at fair value through other comprehensive income	–	–	39,377	44,870	352,924	723,392	390,876	3,931	1,555,370
Other financial assets	3,070	91,657	1,220	798	1,821	125	87	2,784	101,562
Total financial assets	26,848	306,822	1,678,136	1,285,582	4,455,144	6,456,830	10,142,848	2,420,995	26,773,205
Borrowings from central banks	–	(30)	(57,653)	(44,542)	(634,135)	(801)	–	–	(737,161)
Deposits from banks and other financial institutions	–	(930,759)	(81,439)	(126,179)	(38,640)	(217,499)	–	–	(1,394,516)
Placements from banks and other financial institutions	–	–	(187,137)	(104,911)	(88,924)	(2,391)	(7,297)	–	(390,660)
Financial liabilities at fair value through profit or loss	–	(13,725)	(9,540)	–	(100)	(230)	–	(4,222)	(27,817)
Derivative financial liabilities	–	–	(8,719)	(11,101)	(39,995)	(4,411)	(1,056)	–	(65,282)
Financial assets sold under repurchase agreements	–	–	(84,786)	(6,920)	(16,977)	(512)	–	–	(109,195)
Due to customers	–	(11,921,912)	(554,505)	(1,256,439)	(2,955,410)	(3,672,501)	(12,134)	–	(20,372,901)
Debt securities issued	–	–	(113,725)	(360,635)	(456,191)	(88,196)	(353,098)	–	(1,371,845)
Other financial liabilities	–	(241,413)	(1,562)	(2,318)	(9,317)	(27,304)	(63,012)	(5,540)	(350,466)
Total financial liabilities	–	(13,107,839)	(1,099,066)	(1,913,045)	(4,239,689)	(4,013,845)	(436,597)	(9,762)	(24,819,843)
Net position	26,848	(12,801,017)	579,070	(627,463)	215,455	2,442,985	9,706,251	2,411,233	1,953,362

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (Continued)

The tables below summarize the maturity analysis of financial assets and financial liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting period: (Continued)

	31 December 2019								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Cash and balances with central banks	–	486,535	9,125	6,831	14,476	–	–	2,182,928	2,699,895
Deposits with banks and other financial institutions	–	90,556	33,022	20,772	90,234	1,158	–	–	235,742
Placements with and loans to banks and other financial institutions	14	–	207,602	155,974	135,902	22,298	1,393	–	523,183
Derivative financial assets	–	–	2,703	4,508	17,107	572	54	–	24,944
Financial assets held under resale agreements	3,872	–	681,579	22,323	777	–	–	–	708,551
Loans and advances to customers	18,973	–	558,669	623,929	2,673,237	2,572,187	6,372,769	–	12,819,764
Financial assets at fair value through profit or loss	–	10,066	39,013	148,812	264,557	104,287	123,340	111,286	801,361
Debt instrument investments at amortized cost	–	–	57,686	118,976	473,032	2,623,065	1,673,982	–	4,946,741
Other debt instrument and other equity investments at fair value through other comprehensive income	–	–	57,974	93,069	409,965	805,881	304,857	3,082	1,674,828
Other financial assets	3,183	70,044	1,371	1,449	2,028	221	1	2,561	80,858
Total financial assets	26,042	657,201	1,648,744	1,196,643	4,081,315	6,129,669	8,476,396	2,299,857	24,515,867
Borrowings from central banks	–	(30)	(14,626)	(36)	(593,394)	(450)	–	–	(608,536)
Deposits from banks and other financial institutions	–	(904,887)	(82,729)	(228,049)	(194,638)	(93,346)	(260)	–	(1,503,909)
Placements from banks and other financial institutions	–	–	(129,237)	(112,198)	(72,581)	(4,058)	(7,289)	–	(325,363)
Financial liabilities at fair value through profit or loss	–	(14,147)	(6,681)	–	(3,505)	–	–	(5,901)	(30,234)
Derivative financial liabilities	–	–	(6,161)	(8,296)	(12,793)	(1,799)	(499)	–	(29,548)
Financial assets sold under repurchase agreements	–	–	(22,800)	(18,671)	(11,726)	–	–	–	(53,197)
Due to customers	–	(11,268,019)	(675,622)	(1,336,503)	(2,658,324)	(2,898,060)	(12,627)	–	(18,849,155)
Debt securities issued	–	–	(66,682)	(181,008)	(493,388)	(56,452)	(310,682)	–	(1,108,212)
Other financial liabilities	–	(159,786)	(76,761)	(2,010)	(4,472)	(8,823)	(721)	(2,706)	(255,279)
Total financial liabilities	–	(12,346,869)	(1,081,299)	(1,886,771)	(4,044,821)	(3,062,988)	(332,078)	(8,607)	(22,763,433)
Net position	26,042	(11,689,668)	567,445	(690,128)	36,494	3,066,681	8,144,318	2,291,250	1,752,434

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows

Assets available to meet obligations related to the Group's liabilities and outstanding credit commitments primarily include cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets at fair value through profit or loss, and financial assets held under resale agreements. In the normal course of business, the majority of customer deposits repayable on demand or on maturity are expected to be retained. In addition, the Group is able to sell the other debt instrument and other equity investments at fair value through other comprehensive income to repay matured liabilities, if necessary.

The tables below present the undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

	31 December 2020								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	–	116,773	11,869	4,322	12,653	–	–	2,291,658	2,437,275
Deposits with banks and other financial institutions	–	86,976	17,515	58,080	263,326	14,419	–	–	440,316
Placements with and loans to banks and other financial institutions	17	–	211,242	158,751	154,809	30,258	1,308	–	556,385
Financial assets held under resale agreements	3,689	–	758,771	33,440	23,928	–	–	–	819,828
Loans and advances to customers	82,234	–	615,894	949,240	3,596,570	4,669,491	11,070,548	–	20,983,977
Financial assets at fair value through profit or loss	5	11,416	41,369	62,296	147,124	134,878	124,902	126,481	648,471
Debt instrument investments at amortized cost	443	–	63,769	128,789	595,532	3,187,505	2,887,451	–	6,863,489
Other debt instrument and other equity investments at fair value through other comprehensive income	–	–	41,424	49,589	384,091	798,307	442,817	2,784	1,719,012
Other financial assets	–	91,657	1,220	798	1,821	125	87	2,784	98,492
Total non-derivative financial assets	86,388	306,822	1,763,073	1,445,305	5,179,854	8,834,983	14,527,113	2,423,707	34,567,245
Non-derivative financial liabilities									
Borrowings from central banks	–	(30)	(57,653)	(44,848)	(647,586)	(790)	–	–	(750,907)
Deposits from banks and other financial institutions	–	(930,759)	(81,706)	(126,901)	(42,211)	(235,630)	–	–	(1,417,207)
Placements from banks and other financial institutions	–	–	(187,271)	(105,240)	(89,826)	(3,444)	(7,850)	–	(393,631)
Financial liabilities at fair value through profit or loss	–	(13,725)	(9,543)	–	(100)	(230)	–	(4,222)	(27,820)
Financial assets sold under repurchase agreements	–	–	(87,891)	(6,929)	(17,032)	(516)	–	–	(112,368)
Due to customers	–	(11,922,145)	(555,122)	(1,261,386)	(2,998,626)	(3,939,672)	(14,692)	–	(20,691,643)
Debt securities issued	–	–	(113,895)	(364,892)	(478,222)	(163,736)	(398,939)	–	(1,519,684)
Other financial liabilities	–	(241,177)	(1,562)	(2,321)	(9,368)	(27,800)	(63,212)	(5,540)	(350,980)
Total non-derivative financial liabilities	–	(13,107,836)	(1,094,643)	(1,912,517)	(4,282,971)	(4,371,818)	(484,693)	(9,762)	(25,264,240)
Net position	86,388	(12,801,014)	668,430	(467,212)	896,883	4,463,165	14,042,420	2,413,945	9,303,005

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows (Continued)

The tables below present the undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period: (Continued)

	31 December 2019								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	–	486,535	9,125	6,831	14,476	–	–	2,182,928	2,699,895
Deposits with banks and other financial institutions	–	90,556	33,047	20,884	91,763	1,158	–	–	237,408
Placements with and loans to banks and other financial institutions	14	–	208,566	157,415	136,766	22,413	1,451	–	526,625
Financial assets held under resale agreements	3,872	–	683,342	22,448	789	–	–	–	710,451
Loans and advances to customers	88,886	–	631,291	747,818	3,213,978	4,254,361	9,636,082	–	18,572,416
Financial assets at fair value through profit or loss	–	10,066	39,068	150,739	273,575	127,220	140,773	116,474	857,915
Debt instrument investments at amortized cost	–	–	71,325	142,840	586,483	3,014,522	1,977,753	–	5,792,923
Other debt instrument and other equity investments at fair value through other comprehensive income	–	–	60,246	98,418	443,923	881,095	339,239	2,050	1,824,971
Other financial assets	–	70,044	1,371	1,449	2,028	221	1	2,561	77,675
Total non-derivative financial assets	92,772	657,201	1,737,381	1,348,842	4,763,781	8,300,990	12,095,299	2,304,013	31,300,279
Non-derivative financial liabilities									
Borrowings from central banks	–	(30)	(14,655)	(54)	(606,271)	(450)	–	–	(621,460)
Deposits from banks and other financial institutions	–	(904,885)	(82,724)	(229,529)	(199,427)	(97,725)	(260)	–	(1,514,550)
Placements from banks and other financial institutions	–	–	(129,391)	(112,804)	(72,530)	(5,506)	(8,194)	–	(328,425)
Financial liabilities at fair value through profit or loss	–	(14,147)	(6,691)	–	(3,540)	–	–	(5,901)	(30,279)
Financial assets sold under repurchase agreements	–	–	(22,813)	(18,722)	(11,878)	–	–	–	(53,413)
Due to customers	–	(11,268,210)	(677,446)	(1,341,855)	(2,694,078)	(3,107,445)	(15,256)	–	(19,104,290)
Debt securities issued	–	–	(67,271)	(186,093)	(516,177)	(115,060)	(365,107)	–	(1,249,708)
Other financial liabilities	–	(159,672)	(76,762)	(2,014)	(4,530)	(9,363)	(944)	(2,706)	(255,991)
Total non-derivative financial liabilities	–	(12,346,944)	(1,077,753)	(1,891,071)	(4,108,431)	(3,335,549)	(389,761)	(8,607)	(23,158,116)
Net position	92,772	(11,689,743)	659,628	(542,229)	655,350	4,965,441	11,705,538	2,295,406	8,142,163

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Derivative cash flows

Derivatives settled on a net basis

The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

	31 December 2020					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Derivatives on a net basis	(18)	(120)	(39)	(2,203)	(1,018)	(3,398)

	31 December 2019					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Derivatives on a net basis	–	(5)	9	(852)	(427)	(1,275)

Derivatives settled on a gross basis

The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

	31 December 2020					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Derivatives settled on a gross basis						
— Cash inflow	529,178	530,154	1,540,225	51,085	–	2,650,642
— Cash outflow	(527,974)	(526,854)	(1,545,117)	(50,938)	–	(2,650,883)
Total	1,204	3,300	(4,892)	147	–	(241)

	31 December 2019					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Derivatives settled on a gross basis						
— Cash inflow	509,415	449,528	1,849,384	53,790	40	2,862,157
— Cash outflow	(512,826)	(453,343)	(1,845,114)	(54,222)	(54)	(2,865,559)
Total	(3,411)	(3,815)	4,270	(432)	(14)	(3,402)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Off-balance sheet items

The off-balance sheet items primarily include loan commitments, bank acceptances, credit card commitments, guarantees and letters of guarantee and letters of credit. The tables below summarize the amounts of credit commitments by remaining maturity. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date.

	31 December 2020			
	Less than 1 year	1–5 years	Over 5 years	Total
Loan commitments	277,152	387,315	952,811	1,617,278
Bank acceptances	429,841	–	–	429,841
Credit card commitments	695,183	–	–	695,183
Guarantee and letters of guarantee	135,533	118,620	10,493	264,646
Letters of credit	157,942	4,414	–	162,356
Total	**1,695,651**	**510,349**	**963,304**	**3,169,304**

	31 December 2019			
	Less than 1 year	1–5 years	Over 5 years	Total
Loan commitments	187,064	265,518	604,214	1,056,796
Bank acceptances	339,829	–	–	339,829
Credit card commitments	646,134	–	–	646,134
Guarantee and letters of guarantee	104,848	102,713	8,668	216,229
Letters of credit	148,334	2,706	–	151,040
Total	1,426,209	370,937	612,882	2,410,028

44.3 Market risk

Market risk represents the potential loss arising from changes in market rates of interest and foreign exchange, as well as commodity and equity prices. Market risk arises from both the Group's proprietary positions and customer driven transactions, in both cases related to on- and off-balance sheet activities.

The Group is primarily exposed to interest rate risk through its lending, fixed-income and funding activities. Interest rate risk is inherent in many of the Group's businesses and this situation is common among large banks. It fundamentally arises through mismatches between the maturity and re-pricing dates of interest-earning assets and interest-bearing liabilities.

Foreign exchange rate risk is the potential loss related to changes in foreign exchange rates affecting the translation of foreign currency denominated monetary assets and liabilities. The risk of loss results from movements in foreign currency exchange rates.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

The Group is also exposed to commodity risk, primarily related to gold and other precious metals. The risk of loss results from movements in commodity price. The Group manages the risk related to gold price together with foreign exchange rate risk.

The Group has determined that the levels of market risk related to changes in equity prices and commodity prices other than gold, with respect to the related exposures in its trading and investment portfolios, are immaterial.

Segregation of Trading Book and Banking Book

To enhance the effectiveness of market risk management, as well as the accuracy of determining the levels of regulatory capital required related to market risk, the Group segregates all financial instruments and commodities, both on-and off-balance sheet, into either the trading book or banking book. The trading book is comprised of financial instruments and commodity positions held for trading, including all derivatives instruments. Any other financial instruments are included in the banking book.

Market Risk Management for Trading Book

The Group manages market risk in the trading book through methodologies that include Value at Risk (VaR), monitoring and management of established limits, sensitivity analysis, duration analysis, exposure analysis and stress testing.

The Group has formulated policies, which are subject to review annually or as circumstances otherwise dictate, to manage market risk. Further, in this regard, the Group's market risk management is focused on movements in domestic and global financial markets, as well as the composition of the trading book and management's trading strategies, within approved limits. Moreover, the Group has implemented more specific policies for financial instruments, closely monitoring the exposure to specific issuers and counterparties, as well as the tenor of individual positions and trading strategies. The foundation of the Group's limit and risk monitoring system is based on VaR, which is used consistently to monitor all classes of financial instruments in the trading book.

The Bank has adopted an historical simulation method, with a confidence level of 99% based on holding period of 1 day and historical data for 250 days to calculate the VaR of the trading book, which includes the Head Office, domestic branches and overseas branches. Based on the differences between domestic and overseas markets, the Bank selected applicable parameters for model and risk factors in order to reflect the actual market risk levels. The Bank verified the accuracy and reliability of market risk measurements through data analysis, parallel modeling and back-testing of the market risk measurements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Market Risk Management for Trading Book (Continued)

VaR Analysis for the Trading Book

Bank

		2020			
		At the end of the year	**Average**	**Maximum**	**Minimum**
Interest rate risk		**59**	**88**	**164**	**52**
Exchange rate risk	(1)	**28**	**165**	**213**	**28**
Commodity risk		**62**	**75**	**120**	**9**
Overall VaR		**87**	**232**	**362**	**87**

Bank

		2019			
		At the end of the year	Average	Maximum	Minimum
Interest rate risk		75	89	116	57
Exchange rate risk	(1)	90	120	287	56
Commodity risk		9	15	25	5
Overall VaR		115	146	291	92

The Bank calculates VaR for its trading book (excluding RMB foreign currency settlement contracts with customers under relevant regulations). The Bank conducts stress testing for its trading book quarterly. The specific areas subject to this testing include the major areas of exposure, such as bonds, interest rate derivatives, foreign exchange derivatives and precious metal. The stress testing uses a range of scenarios, to assess the potential impact on profit and loss.

(1) VaR related to gold is recognized as a component of foreign exchange rate risk.

Market Risk Management for Banking Book

The Group manages market risk related to the banking book by consistently applying techniques across the Group that include exposure limit management, stress testing, scenario analysis and gap analysis.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Market Risk Management for Banking Book (Continued)

Interest Rate Risk Management

Interest rate risk refers to the risk that the adverse changes in interest rate levels and maturity structures will cause the bank's book value to suffer losses. The Bank's book interest rate risk mainly comes from the mismatch of maturity or repricing periods of interest-sensitive assets and liabilities in the Bank's book and the inconsistent changes in the benchmark interest rate on which assets and liabilities are based.

Since the People's Bank of China's LPR reform, the Bank has implemented relevant policies in accordance with regulatory requirements, promoted business system transformation, modified system loan contracts, improved internal and external interest rate pricing mechanisms, strengthened staff training for branches, comprehensively promoted LPR applications, and basically realized the entire system. The entire process of loan pricing applies LPR pricing. After the People's Bank of China reforms LPR, the connection between the benchmark interest rate on loans and the market interest rate will be closer, and the frequency and amplitude of volatility will increase relatively. To this end, the Bank strengthened the monitoring and prejudgment of the external interest rate environment, adjusted internal and external pricing strategies in a timely manner, optimized the asset and liability product structure and maturity structure, actively played the role of interest rate option products, and proactively adjusted the risk structure to reduce the economic value and overall impact of interest rate changes. The adverse impact of earnings. During the reporting period, the Bank's interest rate risk level was generally stable, and all quota indicators were controlled within the scope of regulatory requirements and management objectives.

Foreign Exchange Rate Risk Management

Foreign exchange rate risk relates to the mismatch of foreign currency denominated monetary assets and liabilities, and the potential loss related to changes in foreign exchange rates, which largely arises through operational activities.

The Group performs monitoring and sensitivity analysis of foreign exchange rate risk exposure, manages the mismatch of foreign currency denominated assets and liabilities to effectively manage foreign exchange rate risk exposure within acceptable limits.

Market Risk Exposure Limit Management

Market risk exposure limits are classified as either directive limits or indicative limits, based on the characteristics of the underlying instruments or transactions, including exposure limit monitoring, enforcement of stop-loss limits, VaR limits, and stress testing limits.

The Group is committed to continuous improvement of its market risk exposure limit management. The Group establishes exposure limits reflecting its risk appetite and continuously refines the categorization of market risk exposure limits. Further, it regularly monitors, reports, refines, and implements improvements to the market risk exposure limit process.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Foreign exchange rate risk

The Group primarily conducts its business activities in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies. The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows:

	31 December 2020				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,365,609	54,151	1,296	16,219	2,437,275
Deposits with banks and other financial institutions	363,597	50,938	2,393	17,257	434,185
Placements with and loans to banks and other financial institutions	293,880	185,248	38,894	28,926	546,948
Derivative financial assets	56,666	1,084	45	4,142	61,937
Financial assets held under resale agreements	816,206	–	–	–	816,206
Loans and advances to customers	14,076,068	351,117	52,231	73,017	14,552,433
Financial assets at fair value through profit or loss	552,067	11,165	6,856	12,981	583,069
Debt instrument investments at amortized cost	5,617,868	58,301	4,271	3,780	5,684,220
Other debt instrument and other equity investments at fair value through other comprehensive income	1,309,570	206,292	2,518	36,990	1,555,370
Other financial assets	84,200	10,622	3,415	3,325	101,562
Total financial assets	25,535,731	928,918	111,919	196,637	26,773,205
Borrowings from central banks	(735,900)	–	–	(1,261)	(737,161)
Deposits from banks and other financial institutions	(1,336,474)	(26,379)	(20,775)	(10,888)	(1,394,516)
Placements from banks and other financial institutions	(136,469)	(200,492)	(32,327)	(21,372)	(390,660)
Financial liabilities at fair value through profit or loss	(27,817)	–	–	–	(27,817)
Derivative financial liabilities	(4,367)	(60,268)	(257)	(390)	(65,282)
Financial assets sold under repurchase agreements	(83,009)	(18,995)	–	(7,191)	(109,195)
Due to customers	(19,873,361)	(430,007)	(33,570)	(35,963)	(20,372,901)
Debt securities issued	(1,065,150)	(216,330)	(26,198)	(64,167)	(1,371,845)
Other financial liabilities	(310,910)	(32,108)	(2,399)	(5,049)	(350,466)
Total financial liabilities	(23,573,457)	(984,579)	(115,526)	(146,281)	(24,819,843)
Net on-balance sheet position	1,962,274	(55,661)	(3,607)	50,356	1,953,362
Net notional amount of derivatives	138,397	34,139	19,124	(30,638)	161,022
Loan commitments and financial guarantee contracts	2,893,041	236,335	7,914	32,014	3,169,304

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

The Group primarily conducts its business activities in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies. The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows: (Continued)

	31 December 2019				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,634,765	53,709	1,041	10,380	2,699,895
Deposits with banks and other financial institutions	168,817	44,574	4,605	17,746	235,742
Placements with and loans to banks and other financial institutions	292,023	163,495	43,886	23,779	523,183
Derivative financial assets	10,628	13,473	194	649	24,944
Financial assets held under resale agreements	708,551	–	–	–	708,551
Loans and advances to customers	12,348,860	348,051	51,769	71,084	12,819,764
Financial assets at fair value through profit or loss	777,121	10,887	10,441	2,912	801,361
Debt instrument investments at amortized cost	4,870,459	61,071	7,982	7,229	4,946,741
Other debt instrument and other equity investments at fair value through other comprehensive income	1,426,703	211,441	3,439	33,245	1,674,828
Other financial assets	70,179	7,601	1,336	1,742	80,858
Total financial assets	23,308,106	914,302	124,693	168,766	24,515,867
Borrowings from central banks	(608,086)	–	–	(450)	(608,536)
Deposits from banks and other financial institutions	(1,429,626)	(35,573)	(16,058)	(22,652)	(1,503,909)
Placements from banks and other financial institutions	(48,504)	(205,326)	(52,490)	(19,043)	(325,363)
Financial liabilities at fair value through profit or loss	(26,729)	(3,505)	–	–	(30,234)
Derivative financial liabilities	(17,558)	(11,054)	(159)	(777)	(29,548)
Financial assets sold under repurchase agreements	(14,315)	(31,638)	–	(7,244)	(53,197)
Due to customers	(18,432,646)	(357,021)	(36,907)	(22,581)	(18,849,155)
Debt securities issued	(797,166)	(244,866)	(25,539)	(40,641)	(1,108,212)
Other financial liabilities	(242,709)	(8,318)	(1,360)	(2,892)	(255,279)
Total financial liabilities	(21,617,339)	(897,301)	(132,513)	(116,280)	(22,763,433)
Net on–balance sheet position	1,690,767	17,001	(7,820)	52,486	1,752,434
Net notional amount of derivatives	126,517	22,665	(6,186)	(42,246)	100,750
Loan commitments and financial guarantee contracts	2,141,071	230,196	5,450	33,311	2,410,028

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

The table below indicates the potential effect on profit before tax and other comprehensive income arising from a 5% appreciation or depreciation of RMB spot and forward foreign exchange rates against a basket of all other currencies on the net positions of foreign currency monetary assets and liabilities and derivative instruments in the consolidated statement of financial position.

	31 December 2020		31 December 2019	
RMB	**Profit before tax**	**Other comprehensive income**	Profit before tax	Other comprehensive income
5% appreciation	**(2,433)**	**(462)**	(938)	(298)
5% depreciation	**2,433**	**462**	938	298

The effect on profit before tax and other comprehensive income is calculated based on the assumption that the Group's foreign currency sensitive exposures and foreign currency derivative instruments net position at the end of each reporting period remain unchanged. The Group mitigates its foreign exchange rate risk through active management of its foreign currency exposures and the appropriate use of derivative instruments, based on management expectation of future foreign currency exchange rate movements. Such analysis does not take into account the correlation effect of changes in different foreign currencies, nor any further actions that could be taken by management to mitigate the effect of foreign exchange differences. Therefore, the sensitivity analysis above may differ from actual results occurring through changes in foreign exchange rates.

Interest rate risk

The Group's interest rate risk arises from the mismatches between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities, as well as the inconsistent variations in the benchmark interest rate on which the assets and liabilities are based. The Group's interest-generating assets and interest-bearing liabilities are primarily denominated in RMB. The PBOC stipulated the benchmark interest rate for RMB deposits. The deposit interest rate floating ceiling was removed by the PBOC with effect from 24 December 2015 for commercial banks. Since 16 August 2019, the PBOC established RMB Loan Prime Rate to replace RMB benchmark interest rates for loan as a pricing benchmark of new loan whereby financial institutions are in a position to price their loans based on credit risk, commercial and market factors.

The Group manages its interest rate risk by:

— Strengthen the pre-judgment of the situation and analyze the macroeconomic factors that may affect the LPR interest rate, the benchmark deposit interest rate and the market interest rate;

— Strengthen strategy transmission and optimize the repricing term structure of interest-earning assets and interest-bearing liabilities;

— Implement limit management to control the impact of interest rate changes on the economic value and overall income of bank books within the limits.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Interest rate risk (Continued)

The tables below summarize the contractual maturity or re-pricing date, whichever is earlier, of the Group's financial assets and liabilities at the end of each reporting period.

	31 December 2020						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,158,126	3,294	12,653	–	–	263,202	2,437,275
Deposits with banks and other financial institutions	99,175	57,083	256,632	13,037	–	8,258	434,185
Placements with and loans to banks and other financial institutions	210,779	156,519	149,070	28,830	–	1,750	546,948
Derivative financial assets	–	–	–	–	–	61,937	61,937
Financial assets held under resale agreements	755,068	33,616	22,967	–	–	4,555	816,206
Loans and advances to customers	4,117,253	2,171,094	7,121,297	619,431	489,037	34,321	14,552,433
Financial assets at fair value through profit or loss	40,569	68,013	142,140	100,054	93,128	139,165	583,069
Debt instrument investments at amortized cost	63,386	119,236	463,453	2,617,463	2,310,470	110,212	5,684,220
Other debt instrument and other equity investments at fair value through other comprehensive income	78,608	83,737	343,781	648,946	380,632	19,666	1,555,370
Other financial assets	–	–	–	–	–	101,562	101,562
Total financial assets	7,522,964	2,692,592	8,511,993	4,027,761	3,273,267	744,628	26,773,205
Borrowings from central banks	(55,900)	(43,676)	(629,737)	(803)	–	(7,045)	(737,161)
Deposits from banks and other financial institutions	(1,009,086)	(123,822)	(33,266)	(213,122)	–	(15,220)	(1,394,516)
Placements from banks and other financial institutions	(187,801)	(109,893)	(90,775)	–	(1,199)	(992)	(390,660)
Financial liabilities at fair value through profit or loss	(9,532)	–	(100)	(230)	–	(17,955)	(27,817)
Derivative financial liabilities	–	–	–	–	–	(65,282)	(65,282)
Financial assets sold under repurchase agreements	(84,777)	(6,914)	(16,966)	(512)	–	(26)	(109,195)
Due to customers	(12,399,566)	(1,216,463)	(2,875,560)	(3,555,434)	(12,129)	(313,749)	(20,372,901)
Debt securities issued	(137,270)	(373,181)	(444,048)	(63,081)	(344,953)	(9,312)	(1,371,845)
Other financial liabilities	–	–	–	–	–	(350,466)	(350,466)
Total financial liabilities	(13,883,932)	(1,873,949)	(4,090,452)	(3,833,182)	(358,281)	(780,047)	(24,819,843)
Interest rate gap	(6,360,968)	818,643	4,421,541	194,579	2,914,986	(35,419)	1,953,362

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Interest rate risk (Continued)

The tables below summarize the contractual maturity or re-pricing date, whichever is earlier, of the Group's financial assets and liabilities at the end of each reporting period. (Continued)

	31 December 2019						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,403,893	5,799	14,476	–	–	275,727	2,699,895
Deposits with banks and other financial institutions	112,905	20,406	88,805	–	–	13,626	235,742
Placements with and loans to banks and other financial institutions	209,697	154,261	134,853	21,083	–	3,289	523,183
Derivative financial assets	–	–	–	–	–	24,944	24,944
Financial assets held under resale agreements	681,875	22,294	774	–	–	3,608	708,551
Loans and advances to customers	5,502,472	1,574,291	5,114,958	343,985	252,466	31,592	12,819,764
Financial assets at fair value through profit or loss	42,784	152,133	255,866	113,428	105,131	132,019	801,361
Debt instrument investments at amortized cost	75,653	140,993	452,172	2,532,585	1,650,204	95,134	4,946,741
Other debt instrument and other equity investments at fair value through other comprehensive income	87,962	142,570	400,393	723,583	299,052	21,268	1,674,828
Other financial assets	–	–	–	–	–	80,858	80,858
Total financial assets	9,117,241	2,212,747	6,462,297	3,734,664	2,306,853	682,065	24,515,867
Borrowings from central banks	(14,200)	(33)	(586,915)	(455)	–	(6,933)	(608,536)
Deposits from banks and other financial institutions	(987,313)	(226,516)	(193,695)	(91,472)	(260)	(4,653)	(1,503,909)
Placements from banks and other financial institutions	(128,699)	(114,216)	(73,762)	(3,361)	(3,689)	(1,636)	(325,363)
Financial liabilities at fair value through profit or loss	(6,684)	–	(3,505)	–	–	(20,045)	(30,234)
Derivative financial liabilities	–	–	–	–	–	(29,548)	(29,548)
Financial assets sold under repurchase agreements	(22,680)	(18,554)	(11,631)	–	–	(332)	(53,197)
Due to customers	(11,854,959)	(1,298,677)	(2,596,724)	(2,804,783)	(12,502)	(281,510)	(18,849,155)
Debt securities issued	(84,224)	(212,941)	(478,509)	(20,551)	(303,405)	(8,582)	(1,108,212)
Other financial liabilities	–	–	–	–	–	(255,279)	(255,279)
Total financial liabilities	(13,098,759)	(1,870,937)	(3,944,741)	(2,920,622)	(319,856)	(608,518)	(22,763,433)
Interest rate gap	(3,981,518)	341,810	2,517,556	814,042	1,986,997	73,547	1,752,434

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Interest rate risk (Continued)

The following table illustrates the potential pre-tax impact, of a parallel upward or downward shift of 100 basis points in relevant interest rate curves on the Group's net Interest Income and other comprehensive income for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparalleled yield curve movements.

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration.

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as other debt instrument and other equity investments at fair value through other comprehensive held, whose fair value changes are recorded as an element of other comprehensive income.

	31 December 2020		31 December 2019	
	Net interest income	**Other comprehensive income**	Net interest income	Other comprehensive income
+100 basis points	**(37,556)**	**(67,941)**	(25,867)	(42,579)
−100 basis points	**37,556**	**67,941**	25,867	42,579

The assumptions do not reflect actions that might be taken under the Group's capital and interest rate risk management policy to mitigate changes to the Group's interest rate risk. Therefore the above analysis may differ from the actual situation.

In addition, the presentation of interest rate sensitivity above is for illustration purposes only, showing the potential impact on net interest income and other comprehensive income of the Group under different parallel yield curve movements, relative to their position at period-end, excluding the derivative positions.

44.4 Country Risk

Country risk represents the risk due to changes and incidents occurred in the economy, politics and society of a specific country or region, which results in the borrowers or debtors in that country or region incapable of or unwilling to pay their debts owed to the Bank or otherwise leads to business losses or other losses to the Bank in that country or region.

According to the regulatory requirements of CBIRC, the Group managed country risk through tools and approaches such as country risk rating, limit approval, exposure analysis and stress testing. In the meanwhile, we fully considered the impact of country risk on asset quality, accurately identified, reasonably assessed and prudently estimated the asset loss that may be caused by country risk. Corresponding provisions were also made for country risk impairment.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.5 Insurance risk

The Group engages in its insurance business primarily in Mainland China. Insurance risk refers to the financial impact resulting from the unexpected occurrence of insured events. These risks are actively managed by the Group through effective sales management, underwriting control, reinsurance management and claim management. Through effective sales management, the risk of mis-selling could be reduced and the accuracy of information used for underwriting is improved. Through underwriting control, risk of adverse selection could be reduced and moreover differential pricing policy based on the level of each kind of risk could be utilized. Through reinsurance, the Group's insurance capacity could be enhanced and targeted risks could be mitigated. Effective claims management is designed to ensure that insurance payments are controlled according to established criteria.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. The Group conducts experience analysis of mortality rate and surrender rate, in order to improve its risk assessment and as a basis for reasonable estimates.

45 CAPITAL MANAGEMENT

The Group's capital management objectives are as follows:

— maintain an adequate capital base to support the development of its business;

— support the Group's financial stability and profitable growth;

— allocate capital through an efficient and risk based approach to optimize risk-adjusted return to shareholders; and

— safeguard the long-term sustainability of the Group's franchise so that it can continue to provide sufficient shareholder returns and benefits for other stakeholders.

The "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC in 2012 includes, among other things, requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

— minimum regulatory requirements for Common Equity Tier-one Capital Adequacy Ratio, Tier-one Capital Adequacy Ratio and Capital Adequacy Ratio are 5%, 6% and 8%, respectively;

— capital conservation buffer requires additional 2.5% of Common Equity Tier-one Capital Adequacy Ratio;

— additional capital surcharge for systemically important banks requires additional 1% of Common Equity Tier-one Capital Adequacy Ratio;

— should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 CAPITAL MANAGEMENT (Continued)

In April 2014, the CBIRC officially approved the Group to adopt advanced capital management approach. Within the scope of the approval, the Internal Ratings-Based approach is adopted to Credit Risk-weighted Assets for both retail and non-retail risk exposures, and the Standardized approach for both Operational Risk-weighted Assets and Market Risk-weighted Assets. The CBIRC will determine the parallel run period for the Group, which should last for at least three years. During the parallel run period, the Group should calculate its Capital Adequacy Ratios under the advanced approach and the non-advanced approach, and should conform to the capital floor requirements as stipulated in the "Capital Rules for Commercial Banks (Provisional)".

In January 2017, the CBIRC has officially approved the Group to adopt the Internal Models approach to measure its Market Risk-weighted Assets for qualified risk exposures.

Capital adequacy and the utilization of regulatory capital are closely monitored by the Group's management in accordance with the guidelines developed by the Basel Committee and relevant regulations promulgated by the CBIRC. Required information related to capital levels and utilization is filed quarterly with the CBIRC.

The Group's capital adequacy ratio calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC as at the end of the reporting period is as follows:

		31 December 2020	31 December 2019
Common Equity Tier-one Capital Adequacy Ratio	(1)	**11.04%**	11.24%
Tier-one Capital Adequacy Ratio	(1)	**12.92%**	12.53%
Capital Adequacy Ratio	(1)	**16.59%**	16.13%
Common Equity Tier-one Capital	(2)	**1,884,392**	1,748,467
Deductible Items from Common Equity Tier-one Capital	(3)	**(9,020)**	(7,883)
Net Common Equity Tier-one Capital		**1,875,372**	1,740,584
Additional Tier-one Capital	(4)	**319,884**	199,894
Net Tier-one Capital		**2,195,256**	1,940,478
Tier-two Capital	(5)	**622,668**	557,833
Net Capital		**2,817,924**	2,498,311
Risk-weighted Assets	(6)	**16,989,668**	15,485,352

Pursuant to the "Capital Rules for Commercial Banks (Provisional)":

(1) The scope of consolidation related to the calculation of the Group's Capital Adequacy Ratios includes Domestic Institutions, Overseas Institutions and affiliated financial subsidiaries specified in the Regulation.

The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 CAPITAL MANAGEMENT (Continued)

(2) The Group's Common Equity Tier-one Capital includes: ordinary share capital, capital reserve (subject to regulatory limitations), investment revaluation reserve, surplus reserve, general reserve, retained earnings, non-controlling interests (to the extent permitted in the Common Equity Tier-one Capital under the Regulation), and the foreign currency translation reserve.

(3) The Group's Deductible Items from Common Equity Tier-one Capital include: other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.

(4) The Group's Additional Tier-one Capital includes: preference shares issued and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).

(5) The Group's Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).

(6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

46 FAIR VALUE OF FINANCIAL INSTRUMENTS

The majority of the Group's assets and liabilities in the consolidated statement of financial position are financial assets and financial liabilities. Fair value measurement of non-financial assets and non-financial liabilities do not have a material impact on the Group's financial position and operations, taken as a whole.

The Group does not have any financial assets or financial liabilities subject to non-recurring fair value measurements for the years ended 31 December 2020 and 31 December 2019.

46.1 Valuation technique, input and process

The fair value of the Group's financial assets and financial liabilities are determined as follows:

— If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively;

— If not traded in active markets, fair values of financial assets and financial liabilities are determined by using valuation techniques. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models.

The Group has established an independent valuation process for financial assets and financial liabilities. The Financial Accounting Department of head office establishes the valuation models for financial assets and financial liabilities of head office and its branches in China and independently implements the valuation on a regular basis; and the Risk Management Department is responsible for validating the valuation model, the Operations Departments records the accounting for these items. Overseas branches and sub-branches designate departments or personnel that are independent from the front trading office to perform valuation in accordance with the local regulatory requirements and their own department settings.

The board of directors shall be responsible for establishing and improving the internal control system related to the valuation of financial instruments and approving valuation policies.

For the year ended 31 December 2020 and 31 December 2019, there was no significant changes in the valuation techniques or inputs used to determine fair value measurements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.2 Fair value hierarchy

The Group classifies financial assets and financial liabilities into the following three levels based on the extent to which inputs to valuation techniques used to measure fair value of the financial assets and financial liabilities are observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: fair value measurements are not based on observable market data.

46.3 Financial assets and financial liabilities not measured at fair value on the consolidated statement of financial position

The tables below summarize the carrying amounts and fair values of those financial assets and financial liabilities not measured in the consolidated statement of financial position at their fair value. Financial assets and financial liabilities for which the carrying amounts approximate fair value, such as balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, receivable from the MOF, special government bond, borrowings from central banks, deposits and placements from banks and other financial institutions, due to customers, financial assets sold under repurchase agreements and certificates of deposit issued, interbank certificate of deposits issued and commercial papers issued are not included in the tables below.

	31 December 2020				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Debt instrument investments at amortized cost (excluding receivable from the MOF and special government bond)	**5,273,439**	**5,333,755**	**27,772**	**5,151,535**	**154,448**
Financial liabilities					
Bonds issued	**439,621**	**441,775**	**28,749**	**413,026**	**–**

	31 December 2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Debt instrument investments at amortized cost (excluding receivable from the MOF and special government bond)	4,544,892	4,627,432	33,506	4,403,618	190,308
Financial liabilities					
Bonds issued	356,902	365,299	23,643	341,656	–

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value.

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Derivative financial assets				
— Exchange rate derivatives	–	58,187	–	58,187
— Interest rate derivatives	–	1,009	–	1,009
— Precious metal contracts and others	–	2,741	–	2,741
Subtotal	–	61,937	–	61,937
Loans and advances to customers				
— Discounted bills and forfeiting	–	577,997	–	577,997
— Negotiation L/C	–	52	–	52
Subtotal	–	578,049	–	578,049
Financial investment				
Financial assets at fair value through profit or loss				
— Held for trading				
Bonds	1,257	181,268	–	182,525
Precious metal contracts	–	21,959	–	21,959
Equity	3,912	1,032	–	4,944
Fund	14,323	209	–	14,532
— Other financial assets at fair value through profit or loss				
Bonds	–	132,530	1,478	134,008
Equity	1,842	23,561	71,998	97,401
Fund and others	2,998	6,936	18,897	28,831
— Financial assets designated at fair value through profit or loss				
Debt securities	8,750	55,116	–	63,866
Placements with and loans to banks and other financial institutions	–	24,493	3,442	27,935
Others	–	–	7,068	7,068
Subtotal	33,082	447,104	102,883	583,069
Other debt instruments and other equity investments at fair value through other comprehensive income				
Debt instruments				
— Bonds	114,780	1,417,718	–	1,532,498
— Others	–	531	18,410	18,941
Equity instruments	1,222	–	2,709	3,931
Subtotal	116,002	1,418,249	21,119	1,555,370
Total assets	149,084	2,505,339	124,002	2,778,425

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value (Continued)

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
— Held for trading				
Financial liabilities related to precious metals	–	(13,725)	–	(13,725)
— Financial liabilities designated at fair value through profit or loss				
Placements from banks and other financial institutions by principal guaranteed wealth management	–	–	(9,540)	(9,540)
Liabilities of the controlled structured entities	(4,222)	–	(230)	(4,452)
Others	–	(100)	–	(100)
Subtotal	(4,222)	(13,825)	(9,770)	(27,817)
Derivative financial liabilities				
— Exchange rate derivatives	–	(57,756)	–	(57,756)
— Interest rate derivatives	–	(4,357)	–	(4,357)
— Precious metal contracts	–	(3,169)	–	(3,169)
Subtotal	–	(65,282)	–	(65,282)
Due to customers				
Due to customers measured at fair value	–	(268,551)	(73,118)	(341,669)
Total liabilities	(4,222)	(347,658)	(82,888)	(434,768)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value (Continued)

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Derivative financial assets				
— Exchange rate derivatives	–	24,128	–	24,128
— Interest rate derivatives	–	340	–	340
— Precious metal contracts and others	–	476	–	476
Subtotal	–	24,944	–	24,944
Loans and advances to customers				
— Discounted bills and forfeiting	–	540,387	–	540,387
Subtotal	–	540,387	–	540,387
Financial investment				
Financial assets at fair value through profit or loss				
— Held for trading				
Bonds	2,190	199,269	–	201,459
Precious metal contracts	–	29,132	–	29,132
Equity	2,354	–	–	2,354
Fund	7,100	236	–	7,336
— Other financial assets at fair value through profit or loss				
Bonds	–	93,298	4,194	97,492
Equity	2,108	22,194	70,881	95,183
Fund and others	2,227	5,351	15,799	23,377
— Financial assets designated at fair value through profit or loss				
Debt securities	12,419	199,231	–	211,650
Deposits with banks and other financial institutions	–	28,207	–	28,207
Placements with and loans to banks and other financial institutions	–	99,174	5,010	104,184
Others	–	–	987	987
Subtotal	28,398	676,092	96,871	801,361
Other debt instruments and other equity investments at fair value through other comprehensive income				
Debt instruments				
— Bonds	200,203	1,452,949	–	1,653,152
— Others	–	–	18,594	18,594
Equity instruments	1,107	–	1,975	3,082
Subtotal	201,310	1,452,949	20,569	1,674,828
Total assets	229,708	2,694,372	117,440	3,041,520

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value (Continued)

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
— Held for trading				
Financial liabilities related to precious metals	–	(14,147)	–	(14,147)
— Financial liabilities designated at fair value through profit or loss				
Placements from banks and other financial institutions by principal guaranteed wealth management	–	–	(6,681)	(6,681)
Overseas debt securities	–	(3,505)	–	(3,505)
Liabilities of the structured subject of control	(5,901)	–	–	(5,901)
Subtotal	(5,901)	(17,652)	(6,681)	(30,234)
Derivative financial liabilities				
— Exchange rate derivatives	–	(20,382)	–	(20,382)
— Interest rate derivatives	–	(1,676)	–	(1,676)
— Precious metal contracts	–	(7,490)	–	(7,490)
Subtotal	–	(29,548)	–	(29,548)
Due to customers				
Due to customers measured at fair value	–	(146,474)	(306,294)	(452,768)
Total liabilities	(5,901)	(193,674)	(312,975)	(512,550)

Substantially all financial instruments classified within Level 2 of the fair value hierarchy are debt investments, deposits with banks and other financial institutions, currency forwards, currency swaps, interest rate swaps, currency options, precious metal contracts and structured deposit measured at fair value. Fair value of debt investments denominated in RMB is determined based upon the valuation published by the China Central Depository & Clearing Co., Ltd. Fair value of debt investments denominated in foreign currencies is determined based upon the valuation results published by Bloomberg. The fair value of deposits with banks and other financial institutions, currency forwards, currency swaps, interest rate swaps, currency options and structured deposit measured at fair value are calculated by applying discounted cash flow analysis or the Black Scholes Pricing Model. The fair value of precious metal contracts that are related to the Group's trading activities is determined with reference to the relevant observable market parameters. All significant inputs are observable in the market.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

Level 3 financial assets of the Group mainly represented underlying assets invested by principal-guaranteed WMPs issued by the Group including placements with and loans to banks and other financial institutions and credit assets. The counterparties of these placements are primarily non-bank financial institutions in Mainland China. The credit assets are loans and advances to corporate customers in Mainland China. Level 3 financial liabilities largely represented liabilities to the investors of these products. As not all of the inputs needed to estimate the fair value of these assets and liabilities are observable, the Group classified these investment products within Level 3 of the fair value measurement hierarchy. The significant unobservable inputs related to these assets and liabilities are those parameter relating to credit risk, liquidity and discount rate. Management has made assumptions on unobservable inputs based on observed indicators of impairment, significant changes in yield, external credit ratings and comparable credit spreads, but the fair value of these underlying assets and liabilities could be different from those disclosed.

There was no significant transfer amongst the different levels of the fair value hierarchy during the years ended 31 December 2020 and 31 December 2019.

The reconciliation of Level 3 classified financial assets and financial liabilities presented at fair value on the consolidated statement of financial position is as follows:

	2020			
	Financial assets at fair value through profit or loss	Other debt instrument and other equity investments at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Due to customers measured at fair value
1 January 2020	96,871	20,569	(6,681)	(306,294)
Purchases	62,943	6,875	(230)	–
Issues	–	–	(185,640)	(1,155,477)
Settlements/disposals	(57,086)	(6,406)	183,361	1,395,128
Total loss/(gain) recognized in				
— Profit or loss	155	108	(580)	(6,475)
— Other comprehensive income	–	(27)	–	–
31 December 2020	102,883	21,119	(9,770)	(73,118)
Change in unrealized loss/(gain) for the period included in profit or loss for assets/liabilities held at the end of the year	899	–	(100)	–

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

	2019					
	Financial assets at fair value through profit or loss	Derivative Financial assets	Other debt instrument and other equity investments at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	Due to customers measured at fair value
1 January 2019	65,029	33	15,568	(9,949)	(33)	(255,766)
Purchases	116,620	–	8,183	–	–	–
Issues	–	–	–	(103,160)	–	(1,453,314)
Settlements/disposals	(87,063)	(33)	(3,503)	106,543	33	1,410,824
Total loss/(gain) recognized in						
— Profit or loss	2,285	–	–	(115)	–	(8,038)
— Other comprehensive income	–	–	321	–	–	–
31 December 2019	96,871	–	20,569	(6,681)	–	(306,294)
Change in unrealized loss/(gain) for the period included in profit or loss for assets/liabilities held at the end of the year	1,004	–	–	89	–	(4)

In level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the period are presented in net (loss)/gain on financial investments (Note IV 4) of the consolidated income statement.

47 EVENTS AFTER THE REPORTING PERIOD

47.1 Profit appropriation

(1) Pursuant to the resolutions of the Board of Directors' meeting on 27 January 2021, a cash dividend at the dividend rate of 4.84% per annum related to the second tranche of preference shares amounting to RMB1,936 million in total was approved and the dividend was distributed on 11 March 2021.

(2) Pursuant to the meeting of the Board of Directors on 30 March 2021, the proposal for profit appropriations of the Bank for the year ended 31 December 2020 are set forth as follows:

(i) An appropriation of RMB21,040 million to the statutory surplus reserve (Note IV 36);

(ii) An appropriation of RMB39,217 million to the general reserve(Note IV 37);

(iii) A cash dividend of RMB0.1851 per ordinary share in respect of the year ended 31 December 2020 based on the number of ordinary shares issued as at 31 December 2020 totaling RMB 64,782 million (Note IV 10).

As at 31 December 2020, the statutory surplus reserve had been recognized as appropriation. The other two items will be recognized in the Group's financial statements after approval by ordinary equity holders in the forthcoming Annul General Meeting.

48 Comparatives

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 STATEMENT OF FINANCIAL POSITION OF THE BANK

	Notes IV	As at 31 December	
		2020	2019
Assets			
Cash and balances with central banks		**2,436,779**	2,699,397
Deposits with banks and other financial institutions		**413,567**	210,400
Precious metals		**87,357**	30,063
Placements with and loans to banks and other financial institutions		**634,055**	611,187
Derivative financial assets		**61,937**	24,944
Financial assets held under resale agreements		**812,797**	701,304
Loans and advances to customers		**14,489,992**	12,765,561
Financial investments			
Financial assets at fair value through profit or loss		**396,298**	608,494
Debt instrument investments at amortized cost		**5,651,053**	4,915,498
Other debt instrument and other equity investments at fair value through other comprehensive income		**1,439,296**	1,579,790
Investment in subsidiaries	19	**41,544**	41,543
Investments in associates and joint ventures		**210**	208
Controlled structured entities investments		**119,862**	131,462
Property and equipment		**139,588**	141,692
Deferred tax assets		**132,489**	120,072
Other assets		**143,978**	124,823
Total assets		**27,000,802**	24,706,438
Liabilities			
Borrowings from central banks		**737,048**	608,488
Deposits from banks and other financial institutions		**1,413,174**	1,514,804
Placements from banks and other financial institutions		**344,907**	284,187
Financial liabilities at fair value through profit or loss		**23,365**	24,333
Derivative financial liabilities		**65,254**	29,496
Financial assets sold under repurchase agreements		**104,440**	49,360
Due to customers		**20,371,534**	18,847,324
Debt securities issued		**1,326,408**	1,081,040
Other liabilities		**427,892**	332,021
Total liabilities		**24,814,022**	22,771,053

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 STATEMENT OF FINANCIAL POSITION OF THE BANK (Continued)

	Notes IV	As at 31 December 2020	As at 31 December 2019
Equity			
Ordinary shares	32	**349,983**	349,983
Other equity instruments	33	**319,875**	199,886
Preference shares		**79,899**	79,899
Perpetual bonds		**239,976**	119,987
Capital reserve	34	**173,357**	173,357
Investment revaluation reserve	35	**25,784**	29,549
Surplus reserve	36	**195,591**	174,551
General reserve	37	**309,642**	275,790
Retained earnings		**812,626**	730,309
Foreign currency translation reserve		**(78)**	1,960
Total equity		**2,186,780**	1,935,385
Total equity and liabilities		**27,000,802**	24,706,438

Approved and authorized for issue by the Board of Directors on 30 March 2021.

Chairman | *Vice Chairman*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 STATEMENT OF CHANGES IN EQUITY OF THE BANK

	Note IV	Ordinary shares	Other equity instruments	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Total
As at 31 December 2019		**349,983**	**199,886**	**173,357**	**29,549**	**174,551**	**275,790**	**730,309**	**1,960**	**1,935,385**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**210,401**	**–**	**210,401**
Other comprehensive income		**–**	**–**	**–**	**(3,765)**	**–**	**–**	**–**	**(2,038)**	**(5,803)**
Total comprehensive income for the year		**–**	**–**	**–**	**(3,765)**	**–**	**–**	**210,401**	**(2,038)**	**204,598**
Capital contribution from equity holders	**33**	**–**	**119,989**	**–**	**–**	**–**	**–**	**–**	**–**	**119,989**
Appropriation to surplus reserve	**36**	**–**	**–**	**–**	**–**	**21,040**	**–**	**(21,040)**	**–**	**–**
Appropriation to general reserve	**37**	**–**	**–**	**–**	**–**	**–**	**33,852**	**(33,852)**	**–**	**–**
Dividends to ordinary equity holders	**10**	**–**	**–**	**–**	**–**	**–**	**–**	**(63,662)**	**–**	**(63,662)**
Dividends to other equity instrument holder	**10**	**–**	**–**	**–**	**–**	**–**	**–**	**(9,530)**	**–**	**(9,530)**
As at 31 December 2020		**349,983**	**319,875**	**173,357**	**25,784**	**195,591**	**309,642**	**812,626**	**(78)**	**2,186,780**

	Note IV	Ordinary shares	Other equity instruments	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Total
As at 31 December 2018		349,983	79,899	173,357	18,890	153,928	238,215	647,737	1,370	1,663,379
Profit for the year		–	–	–	–	–	–	206,232	–	206,232
Other comprehensive income		–	–	–	10,659	–	–	–	590	11,249
Total comprehensive income for the year		–	–	–	10,659	–	–	206,232	590	217,481
Capital contribution from equity holders	33	–	119,987	–	–	–	–	–	–	119,987
Appropriation to surplus reserve	36	–	–	–	–	20,623	–	(20,623)	–	–
Appropriation to general reserve	37	–	–	–	–	–	37,575	(37,575)	–	–
Dividends to ordinary equity holders	10	–	–	–	–	–	–	(60,862)	–	(60,862)
Dividends to preference shareholders	10	–	–	–	–	–	–	(4,600)	–	(4,600)
As at 31 December 2019		349,983	199,886	173,357	29,549	174,551	275,790	730,309	1,960	1,935,385

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Deutsche Bank AG, Singapore
Branch
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United Arab Emirates

Goldman Sachs (Asia) L.L.C.
68th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
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FOR THE YEAR ENDED 31 DECEMBER 2021

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Agricultural Bank of China Limited Hong Kong Branch
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REGISTRAR AND TRANSFER AGENT IN RESPECT OF EACH SERIES OF CMU NOTES

Agricultural Bank of China Limited Hong Kong Branch
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CMU LODGING AND PAYING AGENT

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